★ TEST AT HAND FOR SPECULATIVE RALLY ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

AY 25, 1957 85 CENTS

Keys to the ;iness Outlook

the Last Half of 1957
—into 1958
HOWARD NICHOLSON

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By JAMES J. BUTLER

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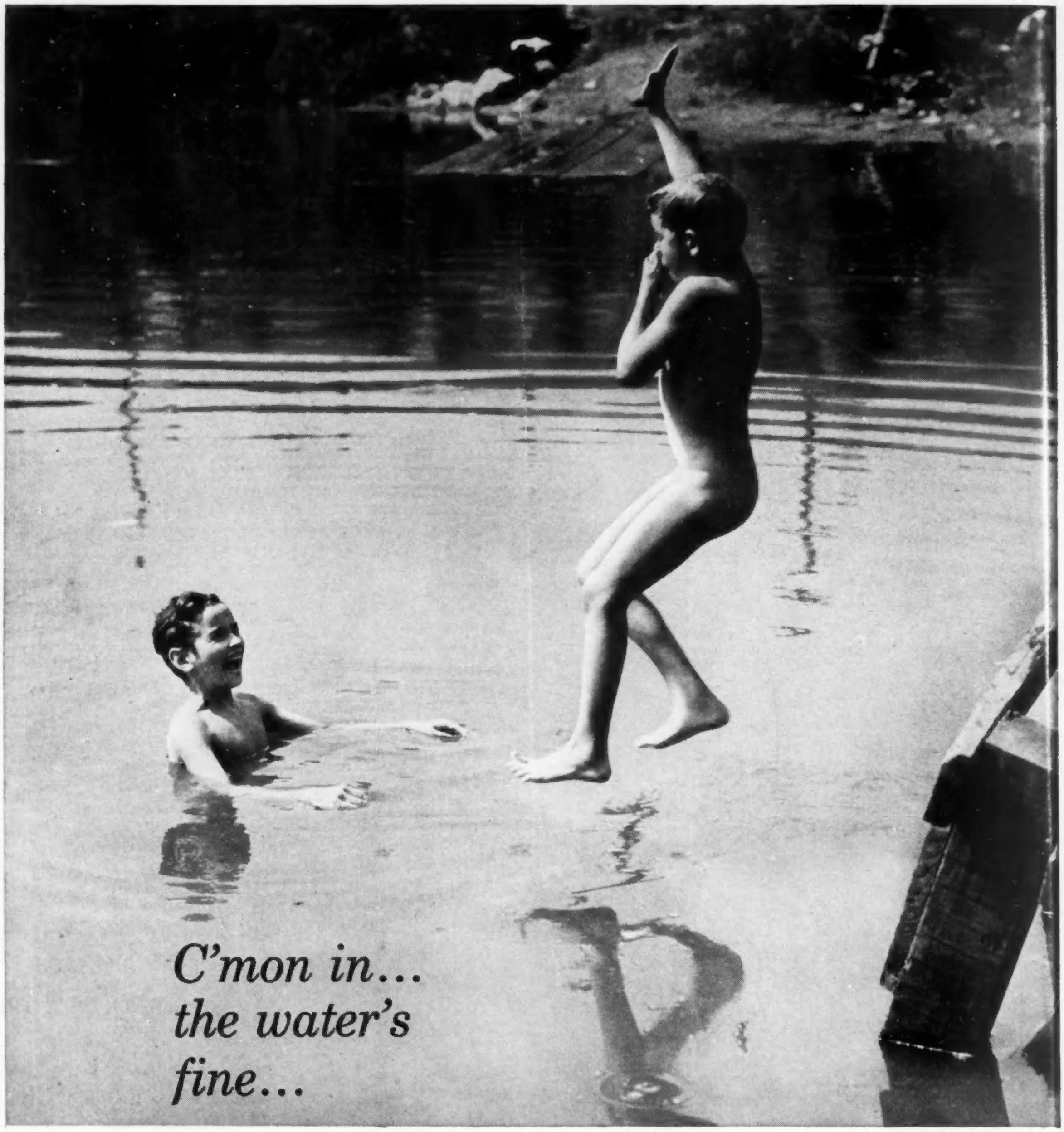

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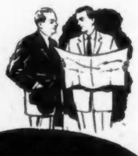

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THE MAGAZINE OF WALL STREET
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Member of Audit Bureau of Circulations

Vol. 100, No. 5 — May 25, 1957

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Cover Photo — Courtesy of Pan American World Airways

Photo page 296 — Courtesy of Press Association, Inc.

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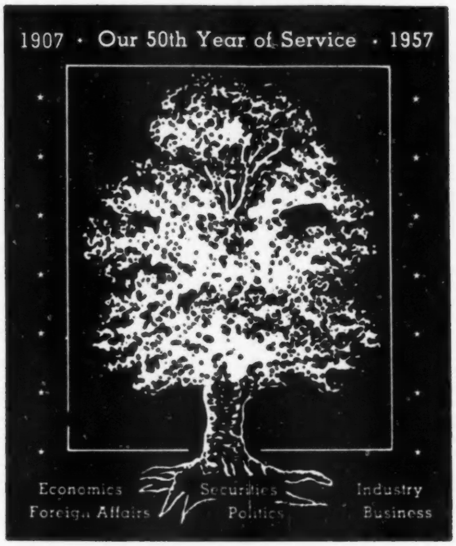
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

FISCAL FOLLY . . . The bond market is not receptive, as Uncle Sam is finding out. Earlier this month, the Treasury offered, in exchange for a maturing issue, $4.2 billion of new securities at the highest interest rate paid by the Government in 24 years. Yet, holders of $1.2 billion of the old issue demanded cash instead. Obviously, this placed the Treasury again in the uncomfortable position of being pressed for cash—a position it had already been in several times since the start of this year. Therefore, the inevitable followed and the Treasury has now offered $1.5 billion of bills for public bidding in the short-term market.

If this were the whole story, we might feel that Uncle Sam, like Peck's bad boy, had learned his lesson—was ready to reduce excessive spending—and be good. Alas, not so. The Treasury has just postponed indefinitely its plans to refund maturing "F" and "G" savings bonds with a new long-term issue. The immediate hope of stemming the flood of "cash-ins" was thus abandoned. At the same time, the widely held "E" bonds are being turned in for cash at a rapid rate. This is not to be an alarmist. All can still be forgiven if Uncle will be good.

In recent months, the Treasury has been plagued by a series of inexorable events that might have been foreseen by higher authority in an Administration bent on borrowing and spending. True, the bond market has been congested, as all could see. Yet, foreign aid has continued at peak levels, with huge dollar drawings by the International Monetary Fund. Tax revenues are running less than expected, and military spending more than expected, due in good part to rising wages. The Administration cannot admit these facts of fiscal life. It has promised a budget surplus. It would not be good politics now to support spending, while confessing the "surplus" may disappear.

President Eisenhower believes the budget cannot be cut substantially—notwithstanding opinions to the contrary in his Cabinet and the public outcry against Government spending and waste. Could it be that Secretary Humphrey foresaw correctly the march of events in the Treasury's need to borrow, and that this has contributed to his coming resignation? Another test of the bond market will come soon, as the Treasury will need $3 to $4 billion of new cash in July. Time marches on.

A POISON IS ITS OWN ANTIDOTE . . . The skullduggery of Mr. Beck has produced irrefutable evidence that labor legislation, which has so long been fought against by labor leaders, is logical and necessary.

Congress has simply got to do something about it—otherwise it is likely to lose the type of respect that will mean mass votes come election. In fact, the recent suggestion that the Teamsters be permitted to clean house themselves won't sit well with the public, who will fear a whitewash of Mr. Beck despite a list of 52 specific charges of misuse in office.

How this suggestion could

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Our 50th Year of Service"*—1957

have been made when the teamsters have shown no inclination to carry out the thorough housecleaning needed is beyond me. In fact, only recently there was the boast from headquarters that Mr. Beck was bound to be reelected to office next fall—that he already had the votes necessary!

The people of the United States are sick and tired of the shenanigans going back over a long period that have made labor union leaders so strong that they actually make their own laws. And, to flout Congress as Mr. Beck has, will make other citizens of this country believe that our legislative body has no power to stop a high-ranking officer of a union from being punished for malfeasance in office, and for robbing the union members of the reserves set up for worker benefits and pensions.

After the exposure of all the nefarious schemes by which Mr. Beck benefited, is it possible this government is not going to do anything better than charge him with tax evasion? That seems incredible, and I cannot believe that the people of this country are going to permit this matter to rest there.

As a result of what has been uncovered, the prolonged debating regarding the Taft-Hartley law which have been going on for years look like so much malarky. To remove this impression now that the Beck situation has clearly shown up its weaknesses, Congress should act with courage and dispatch—or subject itself to the violent criticism that politics rather than national interest is first on the agenda.

WHAT'S THE STORY ON 1957 DIVIDENDS? . . . The announcement by the Commerce Department that April dividends were up 8% above the figure for April 1956, to a new high of $762 million—and that cash dividends for the first four months of 1957 were up 4% to a record of more than $3,500,000,000—was cheerful news for the investment community.

However, a closer look shows that a shift in payment dates was partially responsible for this increase —that there were fewer companies able to increase dividends this year than in 1956—and there were more companies which cut or passed their dividends in this period.

It is always well to break down overall figures to see what they really mean in order to get a realistic answer. While bullish headlines have their place in stimulating confidence—the fine print under sugarcoated generalities has a way of intensifying the ensuing disillusionment.

SUEZ CANAL SETTLEMENT: MORALITY vs. EXPEDIENCY . . . To paraphrase T. S. Elliot, the Suez Canal crisis case to an end not with a bang but with a whimper. When British Prime Minister MacMillan announced his complete "provisional" acceptance of Egypt's conditions it signaled the end of all organized Western resistance to Col. Nasser's scheme to "egyptianize" the world's most important international waterway.

Yet, there is still one lonely hold-out to the Egyptian dictator—France. Obviously, France can not alone carry on the fight for any length of time. A continuation of the Canal boycott would hurt her economy much more than Egypt's since it would put her foreign trade at a serious disadvantage vis-a-vis other nations which are once again using the shortcut through the Red Sea. But France is intent on making a moral gesture as a matter of principle.

The French government's gesture of defiance may be quixotic and futile but it does have the full support of the nation. Mr. MacMillan can not say that much for *his* Suez policy. The British public understood by and large his sober acceptance of the realities of the Suez situation but it was hardly inspired by it. Even within his own party it caused eight members of Parliament to break openly with his foreign policy and Lord Salisbury to resign from the Cabinet. But France's *beau geste* may not have been completely in vain. If nothing else, it has at least reminded politicians the world over that a policy based strictly on moral grounds may at times engender more popular support than one following the precepts of expediency and least resistance.

THE FRUITS OF NASSER'S VICTORY . . . The current meeting in London of 17 oil companies with interests in the Middle East must give scant comfort to Col. Nasser. For these companies, whose combined capital resources are truly astronomic, are now engaged in turning Egypt's victory in the Suez Canal dispute into a phyrric victory, indeed. They are ready to spend some $850 million over the next several years to build a pipeline network from the oil fields to the Mediterranean whose capacity will nearly equal the total current oil shipments through the Canal. In addition, several of the companies have also announced expansions of existing pipelines.

If we add to this the 30 million tons of supertankers (many of them too large to use the Canal) which are currently under construction or on order, it seems that an inexorable sentence of decline by attrition has already been passed on Col. Nasser's private waterway. For the next couple of years the Canal will still be king in Middle East oil transportation. But after 1960 its share of traffic will steadily shrink at the expense of the new pipelines and the big tankers. If Nasser is still around by then he may well have to account to his people for his current boasting that nationalization of the Suez Canal has "opened a new era" for Egypt.

MR. CORDINER SPEAKS OUT . . . And we are all grateful that the head of General Electric should express himself so frankly and clearly.

In discussing the defense program, Mr. Cordiner corrected three fallacies: (1) he rejected as false reasoning the arugment that defense expenditures are a necessary factor in prosperity – (2) that, although necessary, defense expenditures are a loss, and not a contribution to the prosperity of the National economy – (3) that taxes took too much money from the people. And that inflation, caused by defense spending, obliges our citizens to pay twice for their national defense.

Pertinent too, were his comments on the "temptation" to award defense contracts to prop up failing companies and so-called depressed areas in order to keep the voters happy temporarily; he spoke too of the fallacy and cost of playing politics with defense.

We found Mr. Cordiner's forthright statement very inspiring indeed, coming as it does from one of the great industrial leaders, who recognizes that what is best for the country is also best for his company – for all of us.

As I See It!

By CHARLES BENEDICT

THE HARD LOGIC OF COST TO FORCE MODIFICATION IN ARMS RACE

It is not the first time that excesses in themselves contain the seeds of correction. And the arms race has now reached proportions of irrationality in unbearable cost in relation to the defense afforded—the tremendous waste involved in raw materials and labor.

I wonder how many people know or realize that there is no salvage in missiles—that they are a total economic loss — a one-time-shot operation that destroys valuable materials and labor involving huge sums. Planes come back, but a missile is used only once—that is its finish. And the constant effort to increase their range and accuracy produces obsolescence so quickly that stock-piling involves a further continuous and terrible financial loss.

As a matter of fact, in the light of the awesome consequences to mankind from an atomic missile war, I wonder whether nations are not likely finally to agree to outlaw this terrible weapon, just as gas was outlawed during World War II. It is noteworthy in that connection that atomic bombs were not used in Korea because of the reaction and revulsion from people everywhere against the punishment meted out to civilians in Hiroshima and Nagasaki. In fact, the devastation caused by the surprise dropping of the first atomic bomb was so fantastic that it brought the war to an end, the Japanese government, unprepared for the shock, being unwilling to continue under such dire prospects for their people and their cities.

"THE GUIDED DOVE."

Illingworth, copyright by Punch, 1957

Again, it is my belief that the waging of an atomic war at this time would arouse mankind to such a high pitch of hatred that men in any nation attacked would dedicate themselves to fight on to a point of extinction, emerging from caves and other hiding places to attack and murder their enemies.

It is for that reason I believe that all governments in the world would think twice before engaging in atomic or hydrogen warfare. And a realization of this truth added to the fantastic cost involved is bound to result in a conference that will seek to outlaw this type of warfare, which actually, up to now, has been clearly used as a threat rather than as a strategy for waging war.

Only a madman would think in terms of really starting an atomic war, for, as any sane person realizes, it would be the end of the world as we know it —it would be international suicide. Under these circumstances, we must explore every avenue and take every step necessary to rationalize the arms race between ourselves and the Russians.

As the matter stands, in our own country, production of arms has produced severe economic dislocations and been a key factor in raising the price level of all products, raw materials and labor to a point of strain, which has produced a dangerous inflationary atmosphere and excessive taxation. In Russia, production for arms has cut to a minimum the production of goods for civilian consumption, and is producing dislocations so great that for the first time there is evidence that the Kremlin is seriously interested in negotiating arms reduction. They just cannot afford to continue at the pace they are going any more than we can. Actually, armament reduction, and even a severe cut-back is essential for the Russian economy, for it would enable them to turn the machinery of production toward civilian consumption and increased exports.

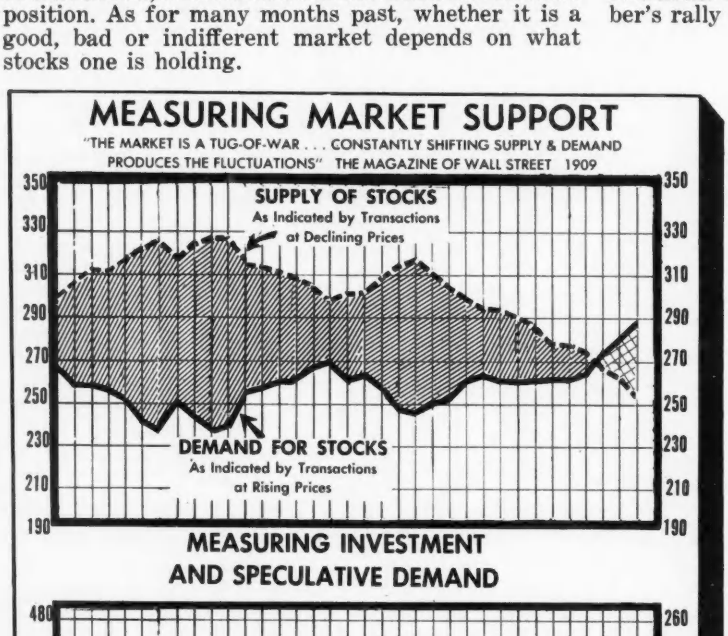
Of course, more than for the Russians, arms reduction presents an adjustment problem for the United States—a period of transition while realigning our productive capacity. This would be very worth while in the long run, but would mean a temporary slowdown. On the other hand, as an offset, it would enable us to make adjustments that would be gradual and would in the process bring a better balance to our price structure—and relief to the taxpayers—and by increasing individual purchasing power, benefit our economy. The arms race just has to be settled if we are to avoid insolvency.

Test At Hand For Speculative Rally

We see nothing in the trends of business, earnings and dividends to support much more recovery in average stock prices. Valuations appear adequate in most instances, excessive in some. This does not mean a "bust" in the making, but it should dictate a trading-range downswing before long. Caution and close discrimination are in order at this time.

By A. T. MILLER

On balance, stock prices moved moderately higher over the past fortnight in a market still featured by numerous cross-currents. Viewing recent trading sessions, a typical daily "box score" looks about like this: new 1957 highs in individual stocks 80, new lows 30; 675 issues off or unchanged, 475 issues up. On the whole, low-priced stocks have recently tended to outgain better-grade issues, indicating a partial revival of speculative motivation and, to that extent, deterioration of the market's technical position. As for many months past, whether it is a good, bad or indifferent market depends on what stocks one is holding.



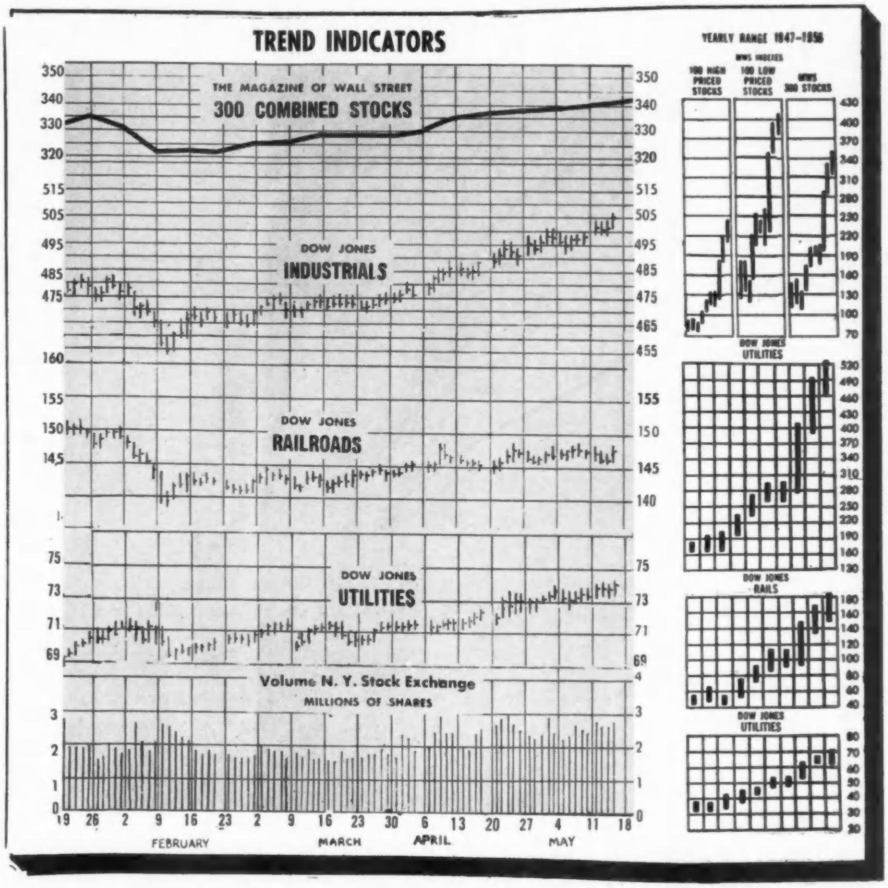
Now around 505, the Dow industrial average has penetrated the supply level represented by its December rally top of 499.47 with seeming ease; and has made up roughly three-quarters of the entire zig-zag decline from the 1956 bull-market high to the February low point. Rails continue to lag, although they showed stirrings of life late last week. At best recent levels, the rail average had made up only about a fifth of its total prior decline, and only two-fifths of the phase of retreat from last November's rally top to the February bottom.

Market In Test Area

Regardless of the industrial average's betterment of its December rally level by about 6 points (some 1.2%), it seems probable that investors will be less willing to reach for stocks and more willing to take some profits around this level or in the apparently formidable area between it and the 1956 top. A recovery from an over-sold position and a partial revival of investment confidence is one thing. A sustained, important market advance is something else. Dynamic general stimulus for stock buying is obviously absent in the present business-earnings-dividend picture. It is absent in the relationship of stock yields to bond yields. The spread now between average yield on industrials equities and returns both on high-grade corporate bonds and on long-term Governments is about as narrow as it was at the stock market's August, 1956, top; and on the same comparison it is even narrower in relation to yields on short-term Government obligations and on tax-free municipals. This should have an inhibiting effect, direct or indirect, on over-all demand for stocks, even though less than in older times when, regardless of ups and downs in living costs, the basic integrity of the dollar was generally taken for granted.

The present spread between average yields on utility stock and bond yields is

slightly narrower than it was at the utility list's 1956 top. This should put tight limits, if not a full brake, on any further rise in income-type utility stocks over the medium term. It is less pertinent for growth-type utilities, but their relatively large advances from earlier lows necessarily mean reduced potentials now. Meanwhile, the utility average has edged higher to a new bull-market peak about 4% above its August, 1956, top, and over 14% above the subsequent reaction low recorded last autumn.



The technical position of rails, which are about as depressed in relation to industrials as they have been at any time in the last decade, and the prospect of somewhat better year-to-year traffic and profit comparisons at least from here through the third quarter, could argue for more recovery in this group. But on the limiting side is the rather deep-seated investment dislike of these issues because of absence of over-all profit growth, even in recent years of business prosperity, and the industry's basic vulnerability to wage-cost squeezes and to even moderate slippages in traffic.

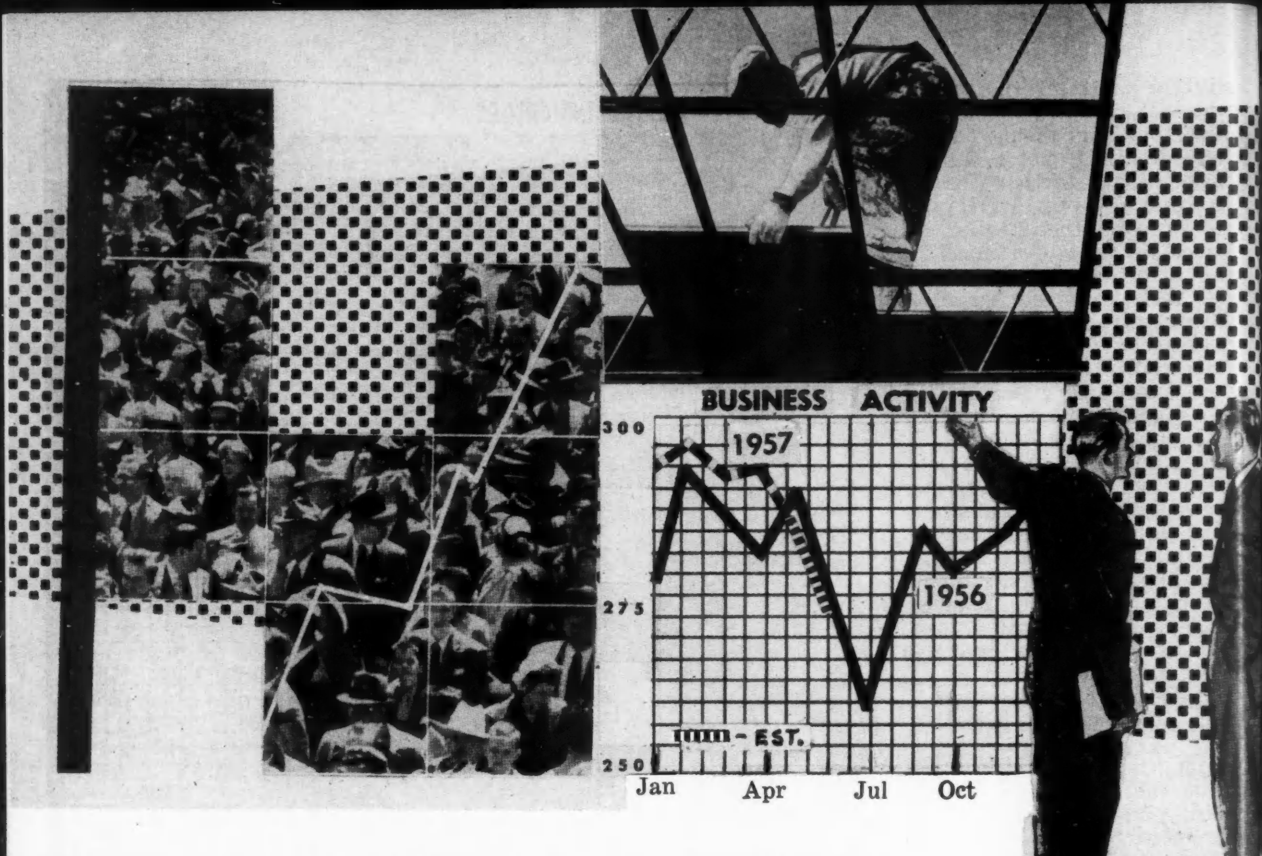
Earnings and Dividends

Based on a broad sampling of first-quarter reports, aggregate profits in manufacturing industries appear to have run about 9% over a year ago and 2% above the 1956 fourth-quarter level. Compared with a year ago, roughly three out of five individual companies had gains; compared with the fourth quarter, about two out of five had gains. Ratio of average net profit to sales dipped to 7.1% from 7.3% a year ago. Total first-quarter net income was up, of course, for utilities; but down for mining, trade, the service and amusements groups, and railroads. Industry is stressing tighter cost control; but, with utilities excluded, it now appears that aggregate earnings will do well to approximate or slightly exceed last year's with much depending on whether the hoped-for fourth-quarter upturn in business activity does or does not develop.

Estimated total first-quarter dividends were 2.5% above a year ago, those for the four months through April about 4% over a year ago. Larger companies are making a better showing. Thus, first-quarter payments on Big-Board listed stocks ran 5% above a year ago. After showing scant change through the four years 1950-1953 in a range of $9 billion to $9.3 billion—aggregate dividends rose 7.6% in 1954 to $10 billion, 12% in 1955 to $11.2 billion, and 7.1% in 1956 to $12 billion. At an annual rate of $12.3 billion in the first quarter, they are again in a flattish course. Whether the total will exceed last year's by about the first-quarter margin of 2.5%, or by perhaps as much as 4% to 5%, will hinge on the year-end extras of industrial companies; and they will hinge on how business looks and managements feel at the time. It is worth noting that with over-all business a little better then than it is now, the 1956 November-December payments were 6.7% under those of the same months of 1955.

So What Now?

The limitations in the earnings-dividend picture as heretofore set forth mean that over-all stock prices cannot rise greatly without confronting investors with over-valuation, as at the 1956 highs; and that, despite exceptions among individual stocks, the market is now at or nearing over-valuation, with resultant vulnerability. However, we continue to look for a moderate-range market, perhaps within the limits heretofore charted since last August, as long as there is no pronounced up or down trend in business. Neither is indicated for nearby months; and, as regards the fourth-quarter and the 1958 potentials, it is appropriate to keep one's fingers crossed. At this market level, our leanings are to the cautious side. In general terms, although each stock must be judged on an individual basis, we favor some profit taking and some build-up of buying reserves. Monday, May 20. —END



Keys to the Business Outlook...

The Major Trends Shaping Business Conditions in Late 1957 and *Early 1958*

By HOWARD NICHOLSON

As mid-year 1957 approaches, forecasters are again engaged in their semi-annual reexamination of the underlying trends of business, and their indications for the next twelve months. And this year, the task is considerably more complicated than at any time since the end of the Korean war. In fact, in approaching the new set of forecasts which is about to appear in the business press, it is perhaps well to bear in mind that at no time in postwar history has the complexion of business been as mottled and varied as it is today.

Accordingly, this year more than most, it is essential to take a close preparatory look at the basic business trends which have brought activity to its present high and stable plateau. In business, the future grows out of the past.

About September, 1954, the second encounter with the business cycle since the end of World War II suddenly terminated, and the business system entered on a sharp expansion. The dominant element in this expansion, by all odds, was an almost frenzied burst of spending (and borrowing) by consumers. As consumer demand soared toward new records in almost every line, the expectations of businessmen for the future were clearly revised upward, and demand for plant and equipment, which had weakened in 1954, developed into a ponderous new strength by mid-1955. Similarly, inventory demand, which had been a basic weakness of 1954, emerged strongly by mid-1955.

By the summer of 1955, all sectors of the economy were in hot competition for the available resources. Prices began to climb as a result of bidding for supply, and then interest rates rose as the Federal Reserve, in its efforts to restrict the bidding maintained a tight credit policy.

By mid-1956, thre was very good evidence that the boom that began in late 1954 was waning, and production rates in early 1956 had in fact begun to slip perceptibly, albeit slowly, downward. Something of a relatively extraordinary nature was clearly required to reverse this slippage, if a painful (even if healthy) adjustment in business was to be avoided.

Miraculously, a very powerful combination of "somethings" turned out to be available on a moment's notice. One of the seeming paradoxes of postwar business history is that similar combinations of emerging strengths have time after time appeared, as though by design, at precisely those times when they were needed. (Witness the National Service Life Insurance Dividend in early 1950; the Korean war in late 1950; the end of consumer credit controls in early 1952; the new automobile models in late 1954; the extraordinarily liberal provisions of the Housing Act passed in mid-1954.) This time the combination included an inflationary steel strike

at mid-year; the sudden flaring of the Suez crisis; and the at least prospective increase in automobile demand related to substantially new models.

Taken together, these stimulants to general business conditions served to break the decline of the first half of the year, and precipitated a new boomlet. Given these underlying stimulants, what is surprising about late 1956 and early 1957 is not that such a boomlet appeared, but that it has been of such modest proportions, and, apparently, of such brief duration.

As Of Now

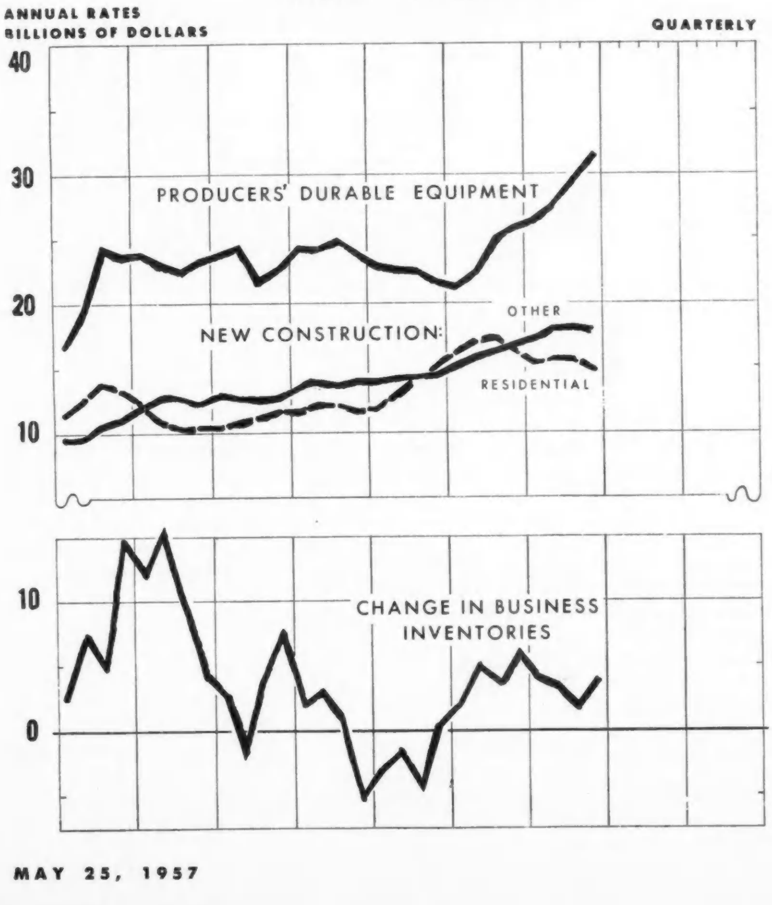
For the fact is that by the end of the first quarter of 1957, all of the effects of these stimulants appear to have been fully absorbed. The basic trend has clearly rolled over from advance to stability, and even a cursory look at some of the major business indicators would suggest that at the moment (that is, in the second quarter) the stability has rolled over into a slow, broad decline. In a matter of nine months, business has absorbed a steel strike that cost six million tons of steel inventories; a major international crisis that could readily be viewed as the most serious threat of war since the Matsu-Quemoy episode over a year earlier; and the appearance of totally new automobile models on the part of the big-three producers. Increasingly, it has rolled with these inflationary punches, and as of now it is difficult to find new sources of inflationary stimulants by which to support a new business uptrend.

There is much consideration being given to the possibility of the curve of business turning up in late 1957, and the possibility is clearly admissible; *but it is essential to note that expectations of such an uptrend still rest primarily on hope and intuition, rather than on evidence. The statistical case for it is unsatisfactory, and to bet on its appearance is to speculate on intuition.*

The Keys to the Next Six Months

Between now and year-end, the key to the business trend lies in three main areas: in the *automobile market;* in the *housing market;* and in *business demand for inventories.* In two fundamental areas which are generally, and erroneously, treated as crucial—that is, in capital goods markets, and in government demand—little basic change can be expected over so short a period, and what changes occur in these two areas are likely to be at least partly offsetting. In other words, the probable course of government spending is up, and the probable course of activity in plant and equipment industries is down). Autos, houses and inventories will dominate business trends and business psychology for the rest of 1957. They accordingly require close individual inspection.

PRIVATE INVESTMENT



The First Key: Automobiles

The automobile industry in the United States is often thought of as the vital center of consumer spending. This is perhaps an exaggeration, but a forgivable one. While consumers spend more on apparel than they do on automobiles, their spending for automobiles is obviously more volatile; more sensitive to changes in psychology; and more significant for the general trend of business.

In 1957, the automobile market has been persistently deflating the expectations of the optimists. At present, the 6.5 million rate of sales which was a confident opinion six months ago is now no more than a forlorn hope, and there are a number of sharp-eyed experts in the field who look for a total sales volume of less than the 5.9 million level reached in 1956. (The record, of course, is 7.2 million, set in 1955.)

The reasons for this failure of expected demand to materialize, in the face of a cascade of new and, on the whole, attractive automotive products, have a strong significance for the rest of the year, and perhaps for 1958 as well. In the main, the blame has been placed on the credit-sale market, and the effects of the

present level of instalment debt. Conspicuously few analysts assert that tight credit is responsible, and the large sales finance companies are quite willing to admit that they would welcome additional volume if they could get it. It is the consumer himself who is rationing his credit purchases, and with good reason. His debts are at a record level, relative to his income, and a recent survey suggests that he finds three-year automotive borrowing an excessively prolonged headache. The Federal Reserve's study of instalment debt strongly suggests that no new pronounced burst of debt-buying lies ahead.

A six-million car year now requires about 4 million sales on credit, and there is no particular reason for expecting this volume of credit sales to be exceeded this year, or in 1958, barring a new radical departure in car design that will drag prospective credit buyers into showrooms. But the problem is not entirely localized to credit buyers. In fact, cash buyers have been a disappointment to the industry in 1957. In spite of the new models, the volume of cars sold for cash has run only very fractionally above last year, when almost all models were simply dressed-up versions of the 1955 cars. The failure of cash demand to develop greater momentum in 1957 may be attributed in part to the less-than-usual appeal of the medium price and high-price lines of one major producer; but it may also reflect a final exhaustion of the liquid asset hoard built up during World War II.

In any event, current trends in the automobile market suggest that production in the third quarter will fall considerably below the 1.5 million probable for the second quarter. Hesitant estimates put the third-quarter output rate at about 1.1 million, and the fourth quarter rate at about 1.6 or 1.7 million. At these rates, the automobile industry will be exerting a mildly deflationary influence on the rest of the economy; implied in the figures is continuing slow ebbing in the demand for steel (the automobile industry takes about 18% of all steel produced) and a host of other commodities such as copper, lead, zinc, aluminum, rubber, paint materials, and glass.

The Second Key: Housing

By the end of the first quarter of 1957, the rate of home-building starts had been in a steep decline for twenty-seven months, and was running at roughly 900,000 dwelling units per year. At least in its later stages, this decline was clearly owing to a shortage of long-term funds for investment in government guaranteed mortgages, which until recently carried a maximum interest rate of 4½%. The rate on FHA mortgages has been raised to 5%, but the proposed increase in VA rates requires approval by Congress, and such approval has not been forthcoming.

The current rate of housing starts is believed, by most analysts, to be a political hot potato, and there is ample evidence of pressure on Washington to do something about it. Bills have already passed both houses which will have the effect of lowering the already low down-payment provisions, and the Federal National Mortgage Association has been granted additional capital for dealing in the secondary mortgage market. Moreover, even apart from federal action, the market for long-term funds required by builders has been easing slowly. The root cause of the decline in housing starts is thus being steadily eliminated.

There remain, however, some doubts about the size of the housing market itself, after a decade during which the building rate has exceeded the rate of new household formation. Many analysts who would agree that the building rate will be rising in late 1957 would also argue that if it rises rapidly home sales will not be able to keep pace, and the home-building industry may finally face more serious difficulties in 1958. This question must remain in the range of conjecture; recurrent government intervention in the housing market over the past half-decade, and wide swings in the availability of mortgage money, have made the underlying trend of housing demand almost impossible to ascertain with any assurance. The soundest present view of the market seems to be that it will be rising in late 1957, but not sharply, and not with any pronounced stimulative consequences for the building industry as a whole, or for those materials industries which supply the building industry (lumber, copper, aluminum, electrical equipment, etc.)

What is also implied by this view is that those consumer industries which are closely associated with residential demand—appliances, floor-coverings, semi-durable housefurnishings and furniture – are not likely to see a substantial recovery from their present moderately depressed levels, but neither are they likely to see any further important decline. On balance, the homebuilding and related industries appear to be only slightly better than neutral in the outlook, and it will not be until almost the close of the year that business will benefit from whatever mild stimulation there is likely to develop in this area.

The Third Key: Inventory Demand

The most difficult area of analysis for the last half of 1957 is the probable trend of business demand for inventories. Throughout 1955 and 1956, inventory, in terms of physical volume, rose steadily, and the increase in physical stocks was amplified by the rising dollar value of each unit of inventory. The total value of business stocks is now about $89 billion, roughly $12 billion more than at the end of 1954, when the cycle of accumulation began. But sales volumes are also higher than at the end of 1954, and inventory-sales ratios, while they have been creeping up, are not now notably high.

Moreover, in the first quarter of 1957 the rate of change in inventories diminished sharply; shelf stocks have stopped growing, at least for the time being. There are even a few analysts willing to argue that they stopped growing too soon, and that in the near future business will have to increase its orders to raise its inventory to more workable levels.

Nevertheless, surveys of business executive opinion, and particularly surveys of purchasing agents strongly suggest that the urge to reduce inventories is still strong—in fact, getting stronger rather than weaker. Steel provides perhaps a compelling example of the logic of inventory control. As the steel rate has declined, steel producers have increasingly argued that the inventories of consuming industries (particularly automobiles) have been worked down to seriously low levels. But actual calculations of steel inventories suggest that no liquidation at all has yet occurred. Such liquidation is not likely to occur in the second (*Please turn to page* 319)

LABOR LEGISLATION with TEETH

To Emerge From Congressional Union Investigation

By JAMES J. BUTLER

The certainty that Congress will continue in session well into August assures a start on Federal legislation creating a system of Union fund surveillance that will go to the roots of pension and welfare disbursements, banking and other enterprise sidelines of trade unionism. It might very well cut across industrial and business pension systems; in fact it is this possibility that stands as the potential roadblock to early, decisive action.

Long before the machinations of Teamster Boss Dave Beck drew the spotlight, Congress was moving toward riveting down union treasury practices. Beck's dealings were eye-openers that brought more than 25,000 demands for action from rank-and-file union card holders. That, in turn, gave timorous lawmakers the encouragement they needed to proceed. Beck may prove the instrument for stiffening the spines of politicians who have regarded the field of organized labor as sacrosanct.

Beck was the only major union leader who supported the Eisenhower-Nixon ticket. Now in the forefront of the movement for new legislation are the President, the Vice President, and many of the coat-tail riders who were returned to Washington last November. The Labor Committee which spotlighted the abuses on which new regulations will be built is a democrat, Senator John McClellan. The subcommittee now formulating bills is headed by another of that party, Senator John Kennedy of Massachusetts.

So, there is bi-partisan backing for controls, so much so that rivalry exists between leaders of the two parties to have the honor of first in the field with readied drafts.

More than revision of bookkeeping is ahead. More, too, than legislated honesty. Capitol Hill is seriously

pondering such "revolutionary" steps as placing the unions under the antitrust law, removing the tax exemptions they enjoy (in some instances while competing with their employers), charting the field of permitted investment, governing insurance practices, and stiff accounting procedures.

Senators Paul Douglas of Illinois and Irving Ives of New York have introduced bills (S. 1122 and S. 1143) relating to the registration of union health and welfare plans—bills which resulted from an inquiry they made. But in the expressed opinion of Senator Kennedy the law must go much farther than registration and reporting. He has listed these topics for immediate examination:

1. The requirement of minimum standards or safeguards in union trust funds, including adequate reserves, independent audits and bans on collusion and discrimination.
2. The full disclosure of, and possible limitations on, conflicts of interest (transactions in which a union official has a personal or financial interest) in the handling of trust funds or other union moneys.
3. Safeguards to facilitate democratic control by union members of welfare and union treasuries and their management, including safeguards for workers arbitrarily excluded from membership, denied participation by the device of trusteeship or penalized for objecting to union policies.
4. Improvement in the apparently inadequate provisions of the Taft-Hartley Act for the reporting to the Government and the membership of all kinds of union funds and financial transactions; and the policing of those reports so that abuses of the type disclosed in the Beck hearing may be more readily identified and corrected.

Full Disclosure First on Agenda

First objective will be better accounting and full disclosure. That seems likely to be the principal, if not the only, enactment out of the way when Congress takes its shortened summer recess in August. The Taft-Hartley Act requires unions to submit financial reports to the U. S. Department of Labor as a condition precedent to invoking the services of the National Labor Relations Board in labor-management matters. The law has been followed by unions to the extent of, perhaps, 50,000 filings but the system can best be described as "ludicrous"! The reports are piling up but they have never been audited. There is no system, and no personnel, to conduct an audit; there is no penalty attached for false filing other than criminal action for perjury—hardly of interest to union members who learn only of a past dereliction and can't protect themselves against current or future abuses. They can't even lock the barn, under the existing system!

Regulation has unanimous support in the politically divided McClellan committee—four democrats, four republicans. Most labor leaders, including the AFL-CIO President, George Meany, back it.

When the Douglas-Ives investigation was made in 1954-1955 it was estimated that funds which would be affected by this type of bill totaled $30 billion. Abuses found included bad management, payroll padding, overpayment of management fees, and outright theft.

In the light of later disclosures, these discoveries now seem tame: A union executive was also the owner of an insurance company handling his union's welfare fund—paid by both, naturally; a broker received $900,000 in premiums and divided the take with a union boss. With these and similar facts at hand, the Senators proposed that unions be required to report to the Securities and Exchange Commission on pension and welfare trusts, whether the funds were created by the employees, the employers, or both.

The Administration, speaking through Labor Secretary James P. Mitchell, would tread more lightly. It would continue the system of reporting to the Labor Department but give the Secretary discretions not found in the senatorial draft. The subject matter would be broadened to cover, generally, the points being made in the Kennedy study. Penalties would be severe. That is in keeping with the size of the operations: an increase from 3 million to 15 million, between 1940 and 1956 in the number of beneficiaries under public and private pension funds; more than $6 billion paid in annually.

Current Controls Need Tightening

A review of existing controls demonstrates the need. Criminal statutes punish outright theft but, not overreaching. Loosely drawn rules permit labor chiefs to "borrow" at will, spending without review, and dispensing largesse. The law prohibits a union from contributing to political campaigns, but "political action committees" can do so. Then there is the requirement for filing financial reports with the Labor Department, with the alternative of being denied NLRB facilities. No union ever has been denied this service on the basis of nonfiling! The Labor Department considers it has fulfilled the requirement of the Act when it opens its mail slot to receive the reports. It doesn't pretend to audit them.

It would neither be economically sound nor sensible to suggest unions should not be permitted to invest surplus funds. Sentiment in Congress leans toward placing union investments under regulations similar to those which govern insurance companies. An insurance company couldn't organize a bank, enter the real estate business, go into the mercantile field, or set up in industry. There is no rule against a labor union doing so—and they are in all these fields today! The United Mine Workers is either first, or second (depending on the evaluators used), in commercial banking in Washington, D. C.

In the absence of taxes it would seem difficult for a union enterprise to fail. With that item of overhead out of the way, the resulting competition has to be one-sided. Congressmen are pondering what reason could justify not taxing union venture profits, and they are finding no excuse. Senator McClellan

NET WORTH OF IMPORTANT LABOR UNIONS

Int'l. Ladies Garment Workers	$48 million[1]
United Auto Workers	34.4 million
United Mine Workers	34 million
United Steelworkers	20.2 million

1—Approximate.
2—As of 1952. Latest figure available.

UNITED MINE WORKERS WELFARE AND RETIREMENT FUND
INCOME AND OUTLAYS

(All figures in thousands)

Fiscal year ending—	Total receipts	Total benefits *	Administrative expense	Total Expenditures	Excess of receipts over expenditures	Balance on hand end of period
May 29, 1946-June 30, 1950	$230,081	$174,690	$ 4,329	$179,019	$ 51,063	$ 51,063
June 30, 1951	130,279	79,329	2,674	82,003	+ 48,276	99,340
June 30, 1952	126,505	122,871	3,467	126,338	+ 167	99,506
June 30, 1953	131,483	135,110	3,854	138,964	− 7,481	92,025
June 30, 1954	134,848	129,296	4,011	133,307	+ 1,541	93,565
June 30, 1955	129,228	115,610	3,575	119,185	+ 10,043	103,608
9-year totals	882,424	756,906	21,910	778,816	+103,608	103,608

*—Includes pensions, hospital and medical care, rehabilitation, death benefits, funeral expense, widow's and dependent children's aid and disaster benefits.

will ask, therefore that union profits be taxed whenever they arise from enterprises in competition with private business.

The primary function of a labor organization is collective bargaining. Yet it is estimated that less than one-half the dues are spent on costs related to that service. Much of the remainder goes indirectly into politicking: 16 million card holders receive one or more weekly or monthly publications from national headquarters, indorsing political candidates and issues, or rejecting them; or organizing lobbies for or against pending bills.

Some Union Methods Offer Models

Leaders in the Congressional move for legislation hope they can defeat the complaint of "labor baiting" by modeling a code of practice around methods already in use in some labor organizations, notably the 1 million-member Machinists Union (International Association of Machinists). For almost 50 of its 68 years, IAM has adhered to a control program that seems as close to perfection as human minds can devise. Al J. Hayes is president. Far from borrowing a quarter-million dollars, as Beck is alleged to have done, the IAM President couldn't borrow the price of a cup of coffee from his union treasury. The rules say no money "shall be loaned or appropriated for purposes other than legitimate functions of (the Union)." Many years ago the question was raised, and the answer was, loans to individuals do not constitute "legitimate functions."

An elective executive council has control over all property of the international union. No funds can be withdrawn without the signatures of the council members. The funds of the grand lodge which is parent to 3088 district and local lodges, can be invested only in United States bonds, state or municipal bonds, Canadian government bonds, or other securities approved for investment of trust funds by the U. S. District Court for the District of Columbia.

There is systematic — and required — two-way check: the local lodges check on the grand lodge, and the grand lodge checks on the locals.

The IAM grand lodge's surveillance is a continuing operation which utilizes a staff of 21 professional field auditors, *not* members of the union. They "ride the circuit" and they handle assignments for special interim checkups. The union constitution requires that, four times each year, each local shall elect an auditing committee from within its own ranks to verify and report on its books. Each local has three trustees whose job it is to bear down on the auditors and examine their findings.

Auditing of the grand lodge funds takes place each six months. Each local of the union within 40 miles of Washington, D. C., votes for selection of a three-member committee to perform this chore; no member may serve more often than once in three years. When this committee is chosen it comes to Washington, employs a certified public accountant and launches its audit, with the CPA, on the basis of a five-day week, continuing from two to three months. Almost as soon as one verification of the accounts has been completed, the machinery is under way to select auditors and start the next one.

Each semi-annual audit is published in layman's language as well as in accountancy tables, and is circulated to all member lodges. It is available for examination by any IAM member. It is set out in full in "The Machinist," the union's weekly newspaper. If there is speculation at the local level, four months is the limit it could go undetected.

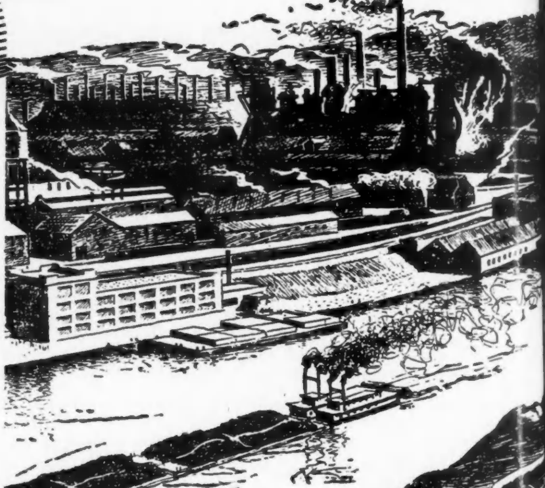
The IAM system of overlapping accounting, plus the self-imposed limitations on the types of investments has enabled the union to stay out of trouble, meet its pension and other benefit commitments, build a fine new headquarters in Washington—and invite Congressmen to inspect the records.

British Labor-Management Methods

There is reticence on the part of Congress to copy any of England's labor-management methods. That springs largely from the extent of union political activity in the isles. But it will be hard for the lawmakers to overlook a system, such as theirs: 90 per cent of the 8.5 million organized workers are members of unions which report to the Government, and to the public, a complete account of their finances—incoming, outgoing, and remaining. The documents are on file for public scrutiny; a copy of any union report is available at a price of 42 cents.

Registration is voluntary; has been since the Trade Union Act of 1871, which set up the registry. The financial statement is an annual disclosure and it must disclose: if there have been defalcations, the circumstances, and the amounts, must be set forth in the public report. (*Please turn to page* 320)

An Expert Analysis of First Quarter Reports



—*with clues to 1957 Prospects*

By EDGAR T. MEAD, Jr.

If one were to draw a single dominant impression from recent corporate quarterly earnings, it would be that the business trend is continuing to be rather flat. Increases in sales are accountable in large part by higher prices rather than a greater unit volume. Earnings gains on the average have not shown very much advance and certainly not as much percentage improvement as sales. Exceptional groups have been the oils, drugs and specialized labor-saving machinery manufacturers, which have displayed satisfactory gains with relation both to fourth quarter and first quarter 1956 sales.

One of the best reflections of the activity of business is the Federal Reserve Board Index. During the first quarter of 1956, the index was 143 in January, 143 in February and 141 in March. By way of comparison, the index was 146 in each of the three months making up the first 1957 quarter. In terms of the 1956 average, this is extremely high, indicating that the flow of manufactured goods, etc. is still moving at a rapid pace. The index is so broad, that comparatively few industries can be said to make or break the short term trend. The steel strike last summer and a slackened automobile production were, of course, weighty enough to affect the secular progress of business as measured bv economic averages. Steel production is still heavy, the rate of automobile production is above the preceding quarters, and special factors, such as a sustained level of military aircraft making, are contributing to the high rate of current business activity.

There is weakness to be found where one might expect it. Although medium and medium-large homes are being commenced in slightly greater volume than a year ago, the vast majority of the market, which is smaller homes, is suffering from the strictures of cropped credit and overbuilding in specific areas. The result is that suppliers to the building construction industry have not reported as satisfactory earnings as a year ago. The margins of chemical companies have contracted, and in this industry there are signs of a less stable price structure than applied in the past. Labor and material costs have mounted, and chemical production appears to exceed present demand. This situation seems to confront numerous other industries, such as paper, cement, non-ferrous metals and, to some extent, retail trade.

Earlier in the first quarter, businessmen and economists were looking for a period of tempered deflation, which has not thus far developed. Inflationary pressures, on the other hand, have not been as strong. It is interesting that some of the union organization economists have been paying stricter attention lately to the trends of new orders, backlogs and sales of their respective industries. Quite possibly, they may not be finding the same grounds to demand higher wages and fringe benefits from corporations as proved possible during the past several years.

A diagnosis of the current economy suggests that there are no longer any real shortages of materials or products. To some extent, the only commodity in

Quarterly Comparison of Sales and Earnings

	1957		1956							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share*	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share
Admiral Corp.	$ 42.3	$ .18	$ 47.8	$[d].32	$ 48.3	$ .02	$ 37.1	$ .19	$ 48.6	$ .55
American Home Products	95.8	2.46	71.6	2.05	74.7	2.08	74.0	2.15	80.5	1.86
American Machine & Foundry	58.9	1.06	33.3	.78	51.4	.70	47.0	.66	43.4	.85
American Radiator & S. S.	89.2	.26	99.7	.68	106.6	.31	98.8	.29	96.1	.48
American Tobacco	245.2	1.43	278.8	2.45	278.6	2.07	274.1	1.93	251.0	1.62
Aemican Viscose	64.1	.85	63.2	.84	54.2	.36	53.3	.46	68.5	1.27
Armco Steel	198.2	1.29[1]	203.8	1.78	163.3	.84	204.6	1.60	189.9	1.81[1]
Atlantic Refining	169.6	1.61	146.4	1.58	123.2	1.14	126.7	1.07	148.8	1.33
Bigelow-Sanford Carpet	20.7	.38	23.5	.85	19.0	.58	21.6	.84	20.5	.37
Black & Decker	14.1	1.72	13.4	1.40	14.3	1.37	12.1	1.36	12.5	1.41
Bucyrus-Erie	24.7	.92	21.2	.68	20.0	.90	24.6	1.49	20.5	1.16
Carborundum Co.	27.6	.85	30.3	1.04	23.2	.58	25.7	1.12	25.5	.94
Cerro de Pasco Corp.	19.2	.66	22.5	2.78	29.1	1.44	17.7	.86	26.2	2.04
Chicago Pneumatic Tool	22.7	.72	21.4	.68	21.3	.60	21.4	.60	19.1	.60
Cities Service	306.4	2.27	252.1	1.73	230.9	1.29	223.6	1.21	267.0	1.80
Columbia Broadcasting System	95.9	.77	98.4	.88	82.1	.54	85.8	.11	88.4	.60
Columbian Carbon	19.3	1.01	17.6	.32	15.2	.68	15.7	.92	16.7	1.09
Container Corp. of America	62.0	.36	67.1	.40	70.5	.40	70.2	.47	68.2	.44
Crown Zellerbach	110.7	.66	118.4	.89	120.4	.89	115.1	.90	108.1	.86
Cutler Hammer	19.4	1.23	19.6	1.20	19.5	1.19	20.0	1.38	20.0	1.45
Electric Storage Battery	25.0	.59	28.7	.68	21.5	.67	23.5	.93	21.0	.72
Foster Wheeler	32.0	1.02	29.9	.94	24.1	.06	24.4	.42	22.5	.53
Fruehauf Trailer	56.8	.20	65.7	[d].04	57.9	.15	72.9	.43	72.4	.48
Island Creek Coal	31.3	1.26	32.4	1.42	28.7	.79	29.0	.85	27.1	.98
Kennecott Copper	133.6	2.57	133.5	2.51	111.6	2.48	162.0	4.16	159.8	4.08
Link Belt	41.8	1.37	41.6	1.56	40.0	1.52	42.3	1.56	40.0	1.31
Merritt-Chapman & Scott	77.5	.54	82.3	1.19	91.9	.60	101.5	.71	98.2	.49
Motorola	52.2	1.10	64.9	1.63	60.8	.91	48.6	.54	53.1	1.04
Ohio Oil	78.5	.96	69.0	.83	65.2	.69	67.6	.72	73.0	.90
Olin-Mathieson Chemical	135.4	.75	141.1	.67	155.4	1.08	155.7	.87	144.3	.76
Penn-Dixie Cement	6.7	.23	10.8	.52	16.1	1.10	14.7	1.00	6.8	.35
Philco Corp.	99.0	.26	93.6	[d].20	87.4	.04	74.3	[d].21	92.4	.38
Pullman	91.2	1.12	91.9	1.48	70.8	1.02	104.4	1.89	97.2	1.32
Republic Steel	354.4	1.81	358.3	2.22	201.8	.28	351.4	1.71	332.6	1.62
Schering Corp.	15.0	1.37	12.8	1.76	14.5	1.62	13.5	1.35	13.6	1.30
Sinclair Oil	348.2	1.72	305.7	1.47	277.7	1.41	280.0	1.44	316.6	1.69
Standard Oil of California	419.1	1.10	315.4	1.23	296.8	1.08	379.2	.96	333.5	.97
Standard Oil of Indiana	550.5	1.29	495.1	.86	451.7	1.12	457.1	1.01	480.9	1.23
Stauffer Chemical	37.0	.90	39.6	.83	41.6	.98	41.2	1.18	37.6	.95
Yale & Towne Mfg.	32.5	.70	32.0	.70	28.3	.60	31.0	.70	31.1	.81

*—Calculated on basis of full year report.

1—Including special credits.

d—Deficit.

short supply in some industries is skilled labor, and there are reasons to expect that this phenomenon may not continue. The unfortunate fact is that productivity of labor has not offset increases in wages and benefits. The turning point may occur when supply overtakes demand and a definite resistance to price increases develops. If profits are squeezed, and squeezed hard enough, employers may not be so willing to go along with wage boosts. At that time, strike threats could prove to be the lesser hazard, as ebbing production eddies into layoffs and plant shutdowns. (The result, deflationary in nature, might help to equate supply and demand.) The clues to watch for are: (1) resistance to price increases, (2) contracted profit margins and (3) a lessening of the inflationary demand for labor.

Steel — Catching Up

The production of steel, which revealed near-full capacity operations during the past few months, has been slipping to a level nearer 90%. During a recent week, the production of ingot tons was reported at 2.3 million tons, which was slightly under a month ago and about 5% under a year ago. Plates, structural steel, rails and oil pipe have been running at the best rate and the companies producing these shapes have been enjoying the more favorable sales and earnings results. On the other hand, light steels have eased as users continue reluctant to build up inventories, despite expectation of a price rise in mid-year.

Republic Steel reported $354 million sales for the first quarter, which was about 6½% ahead of the comparable 1956 quarter, reflecting interim price increases for steel products. Margins were well maintained at 17%, which was an improvement over the performance during 1956. Amortization charges were down slightly, and net income increased from $25.0 million to $28.1 million. Per share earnings were $1.81 compared with $1.62. Shipments of steel were 1.9 million tons during the first quarter, which was only 37,000 tons less than the same 1956 period. Putting the comparison another way, there were sales of $185 per ton during the recent quarter and $176 per ton during the 1956 quarter, illustrating the effect of the steel price increment. Net income was $15.25 per ton against $13.30.

Placing **Armco's** result on the same per ton basis, sales were $135 per ton against $138, and net income was $10.25 per ton against slightly over $12 in the first 1956 quarter. Actual sales were $198.2 million, which was slightly over 4½% above the $190 million of the comparable 1956 quarter. Net income, exclusive of special credits, was $15 million, equal to $1.25 per share against $16.7 million, equal to $1.40. Since Armco depends largely on scrap metal, which increased in cost, and since rolled bars, wire and other forms were not in as great demand, the sales and earnings failed to show a favorable year-to-year comparison.

Leaders in the steel industry are sanguine toward the possibilities of second quarter sales, since the seasonal increase in automobile production, light steel fabrication and other projects may tend to take up some of the slack. Appliances are still in the doldrums. New orders are not being placed on the books as rapidly as during 1956, but the premier producers, such as Armco and Republic, should enjoy a fairly good sales volume this year with earnings expectations favorable in comparison with last year.

In order to take advantage of rapid tax writeoffs for new freight cars, the railroads deluged the car builders with orders during the latter months of 1955. A prominent recipient of orders was **Pullman, Inc.,** which is the largest car maker and also a manufacturer of truck trailers (Trailmobile) and petrochemical plants (M. W. Kellogg). As recently as the first quarter, steel shipments were still slightly behind schedule, although not oppressively, and this and other factors combined to reduce Pullman shipments slightly from the previous quarter. Earnings of $1.12 per share failed to measure up to the 1956 quarterly average of about $1.45 per share. The backlog of around $200 million is sufficient to indicate that forthcoming quarters should prove satisfactory as far as sales are concerned. The long term outlook for the trucking industry is favorable and suggests that the Trailmobile Division should enjoy good profitability. Sales have been stymied in this division by a temporary indisposition on the part of truckmen to buy new units, partly caused by credit tightening and lower profits in the trucking industry. **Fruehauf** has undergone the same experience, and sales cascaded from an average quarterly volume of $67 million during 1956 to $56.8 million during the first quarter of 1957. Similar to the September and December quarters of 1956, earnings have been under pressure, and the recently reported net income of $1.4 million, equal to 20c per share, is a distinct disappointment from the averages of the past two years. The long term outlook for Fruehauf is nonetheless auspicious, and the chances are that succeeding quarters may experience an upturn in sales and earnings. New orders, for one thing, are reported to be developing rapidly.

Foster Wheeler has been running several lengths behind Babcock-Wilcox and Combustion Engineering in the manufacturing of power plants. Evidence of new life has been seen increasingly during the past several quarters, and the March report indicates a sales volume of $32 million, vs. $30 million in the preceding quarter, and $24 million during the September 1956 quarter. Earnings during the most recent two quarters have taken on an additional head of steam, and ample new orders suggests that the company may report better news in the months ahead. Certainly the tremendous needs for power generation devices make Foster Wheeler's longer term outlook favorable, and the nearterm prospect is not at all unpleasant. It has been almost a matter of years since Foster Wheeler has been able to report quarterly earnings in excess of $1 per share.

Much Depends on the Product

Link-Belt, which manufactures a broad line of materials handling devices, continues to reap the benefits of its ingenious ability. First quarter sales were $41.8 million, compared with $41.6 million during the preceding three months. Despite price advances in labor, steel, and other materials, the company reported a net income of $2.6 million, equal to $1.37 per share, a trifle less than the December quarter. A subsidiary factor was the accrual of taxes at a slightly higher rate. Link-Belt's backlog of orders is higher than a year ago, and considering the pressing desire of other industries to purchase labor saving

machines, the prospects should continue to favor this well-managed company. Although sales tend to follow the general level of business, Link-Belt offers many new products which have tended to lessen its dependence upon any one series of industries. The road-building program should help its excavating machinery line, and replacement machinery parts are an important adjunct to sales.

Thanks to the high level of major building construction and the continuing needs of industry for power lift trucks, **Yale & Towne's** sales and earnings have resisted the general downward trend experienced by other less well-protected suppliers of housing construction needs. First quarter sales were $32.5 million, which was above the preceding 1956 quarters, and earnings of 70c per share were exactly the same as the average of the 1956 quarters. The nearterm outlook foretells a further increase in sales, and margins should be maintained at about the same level previously prevailing for the company.

American Radiator's sales reflected the drop in house construction to the extent that first quarter 1957 sales of $89.2 million were below the $96.1 million of the March 1956 quarter. Earnings were hard hit by labor and material price increases, and net income was pared 45% from $5.7 million to $3.1 million in the comparable 1957 and 1956 quarters. Margins have not been satisfactory in this competitive branch of the construction industry, and there is little to suggest that any great improvement may occur during the next few months, when the construction season normally shows greatest strength.

In the machine tool industry, **Black & Decker** pursued its gratifying sales and earnings increases during the March quarter. The "Home Workshop Movement" has been helpful, and the widening applications of powered hand tools in industrial shops, plus the excellence of the Black & Decker product, have combined to increase sales volume. It would therefore appear that sales and earnings should continue to increase during 1957. During the first half of Black & Decker's fiscal 1957 year, profit margins averaged nearly 25%, which is unusually good.

Chicago Pneumatic Tool reported good news for stockholders in the March quarter, with sales of $22.7 million, an improvement of $1.3 million over the December quarter. Earnings of 72¢ compared well with 68¢ during the final 1956 quarter on the recently split (three-for-one) shares. Profit margins have improved faster than sales during the past few years, and the prospect for Chicago Pneumatic orders from mining, road-building, quarrying, and oil field work should ensure a worthwhile level of sales in the future.

Holidays or Layoffs for the Miners?

The recent decline of copper and zinc prices has led many an investor to worry over the future of the non-ferrous metal stocks. On the short term outlook, earnings are destined to be lower than during 1957, but the longer range outlook for metals such as copper, its by-products and the new ventures being entered into by most of the prominent companies in the field all tend to present a far more attractive vista. **Kennecott,** which enjoys the reputation of being one of the more aggressive miners, suffered a sinking spell in sales during the third 1956 quarter, but rallied slightly during the December and March quarters. The recent report indicated a sales level of $133.6 million, vs. $133.5 million during the December three months and $112 million during the September period. Current year-to-year comparisons are not particularly satisfactory, and the outlook for the next quarter is for little improvement. Sales may remain on this plateau until the present abundance of copper disappears. The chances are that full year earnings may compare with the 1951-1955 average of about $8.50 per share rather than the extraordinary $13.18 registered in 1956.

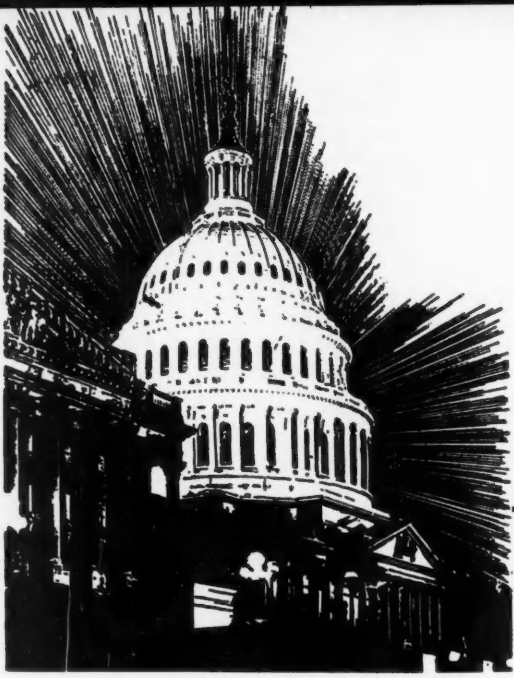
The cement makers have steadily added capacity to anticipate the Federal roadbuilding program, to keep pace with secular increases in demand for cement and to replace old and inefficient plants. Since housing starts are down from the past two years average and since the giant roadbuilding projects are still not in full swing, there would appear to be a need for minor caution in appraising the cement stocks, which sell high on earnings and with relatively small dividend yields. **Penn-Dixie,** one of the more efficient cement producers, reported considerably lower earnings than the average experience during 1956 and slightly below the strictly comparable 1956 first quarter. In the normally slow winter period, Penn Dixie's net income fell from 35¢ per share to 23¢ per share. It is probable that earnings will increase during the spring and summer season, particularly with the benefit of the January price increase in cement amounting to between 15-20¢ per barrel.

Island Creek Coal reported sales of $31.3 million during the first 1957 quarter, a healthy increase from the $27.1 million of a year ago. Increased mining efficiency offset higher costs, so that net income advanced from $2.1 million to $2.8 million, which was translated into earnings per share of $1.26 vs. 98¢. The long term outlook for coal consumption in power plants, chemical plants and in foreign industry has taken on a new and more optimistic tone, and the chances are that Island Creek's sales volume should reflect at least a fair share of the increase. The 1957 outlook appears better than last year, which itself was profitable.

Variations in Chemicals

An example of the indifferent trend which has developed in the chemical industry may be readily seen in **Stauffer Chemical,** which reported first quarter sales of $37 million, the same as during the first quarter of 1956 and slightly under the last quarter of 1956. Earnings dropped from 95¢ per share a year ago to 90¢, reflecting higher costs and various non-recurring charges. The company produces many valuable and dynamic chemicals, and management is considered to be aggressive. The earnings outlook for the balance of the year may not vary greatly from the $3.97 1956 results, but long term prospects are excellent.

Columbian Carbon sales and earnings improved moderately in the first quarter, and the outlook holds promise for a continued gradual increase, aided by strong cash earnings from gas and oil production. The carbon black business has not been dynamic and has depended greatly on tire and printing ink volume. Petroleum reserves have increased, and this factor tends to lend a good long term outlook to the company. (*Please turn to page* 316)



Inside Washington

By "VERITAS"

TAX SUBSIDY as a lure for new industry is overrated, says the private nonprofit Industrial Council of the Urban Land Institute on the basis of a study of industrial growth of Alameda County, California, selected because of recent rapid expansion. The size of the tax bill was found not as much an inducement as the argument showing benefits deriving from taxes, distribution of the tax dollar. Industry chiefs responding to inquiries said they wanted good municipal services, know they cannot be provided free.

FAST WRITEOFF of industrial plant expansion costs, for purposes of Federal Tax computation is due for drastic revision or all scales for weighing legislative influence must be junked. The conservative Senator Harry F. Byrd, and the extremely liberal Senator Wayne Morse are teamed on the Capitol Hill front; President Eisenhower has placed the Executive Department on record for revision; Treasury Secretary Humphrey goes along, on behalf of the Agencies. It's rarely the case that all three branches of Government are of one mind. Yet they could falter on: What is a "defense" industry?

ADVANTAGE of having a non-political President (if that term may properly be applied because one has no re-election prospect) is reflected in the White House veto of government employees pay-raise program. Congressmen agree there are some salary inequities which must be adjusted, but across-the-board boosts for 1.5 million payrollers spelled inflation in capital letters. The lawmakers were being furiously lobbied to say yes; now the President has made it possible for them to say no. He has taken Congress off the hook by the veto suggestion.

LEADERSHIP is being risked by President Eisenhower by his direct appeal to the public. Ike is asking the taxpayers to insist Congress enact the program the White House has put forward, including appropriations at a level that must further postpone tax reduction. Congressmen are certain to report mail and telegram response supporting their own positions; it has never been any other way. The showdown will come when the bills, the budget included, come on for decision in the Senate as well as in the House.

WASHINGTON SEES:

Congress is building toward an investigation of TVA and related public power projects with a view to writing new definitions of purpose and permitted competition with private companies. The original concept of production for areas to which existing companies could not economically carry service has been dimmed; it will be lost, say the investor-owned utilities, if TVA is granted the right to finance by means of revenue bonds.

The Authority could obtain funds to pay interest and principal on such obligations only by selling electricity; the securities would be backed up by the proceeds from hundreds of millions of dollars of Federal money already spent and, in effect, subordinated to the new financing. If revenue bonds are authorized, utility witnesses counseled the House Public Works Committee, the result could be unleashing of tremendous amounts of subsidized electric power.

The Atomic Energy Commission and other Federal users now take more than one-half of TVA's production. If those operations reduce, or disperse, the search will be on for substitute markets. Nearby markets, naturally.

Gist of the argument advanced by the private companies is this: "If Government is going to compete with business it should charge the true costs of doing business, not base on subsidized costs at the expense of the customers of investor-owned utility companies and other taxpayers."

As We Go To Press

The tendency of the Senate and the House to act as separate organizations rather than as coordinate parts of a single legislature is becoming more evident. The development surpasses healthy rivalry and does not stop with the essential check of one body of government against unwise actions by the other. Today, the House is economy minded and the Senate is not. That means that the lower branch will carve $2 billion or more out of Ike's budget, and the Senate may put it right back in. Over the years that routine has been tolerated because never before was there a Presidential budget of such huge proportions as the one currently under study. In fact there have been times when the House was outright stingy, counting on the Senate to keep the agencies in business.

This year, it isn't only the money bills which will receive the standard treatment. When the House gets through with appropriations measures the taxpayers will know the absolute tops in reductions; from that point on the savings will be scaled down. It's certain the Senate won't cut deeper, in the overall. But now the Senate is sitting back and refusing to legislate in other fields until the House acts. Constitutionally, money bills must first be voted by the House. There is no protocol that says such measures as natural gas control, aid to education, civil rights, and school construction are subject to the same kind of precedence. But Senator Lyndon Johnson, majority leader has established one: the Senate won't act on these and a broad miscellany of other bills, until the lower branch passes them.

This is part of what appears to be a planned slow-down of Senate work. The school bill and civil rights legislation in particular, and the gas bill to a lesser extent, have the capacity to tie up the Senate in interminable wrangling. Any one of them could keep necessary defense, or government "housekeeping" bills from coming up for action. Johnson takes the position there is no need to start trouble in his branch (where debate is unlimited) if the topics don't have a house vote as a boost toward enactment. The Senate slow-down is about to take the form of a three-day week: sessions on three days; committees "catching up on work" on others.

Senator Johnson doesn't accept the criticism of foot-dragging. He contends the precise opposite is true. Almost 150 measures having either Ike's personal indorsement or Administration sponsorship repose in neatly folded bill form, most of them not scheduled for committee action. The Texan says more committee sessions will make it possible to clear away this backlog. "Vote them, up or down," suggests Johnson; and there probably will be more of the latter than of the former, especially since the Majority Leader has narrowed the field by excluding from Senate consideration at this time, the major issues. Senator Clifford P. Case, New Jersey republican, sees a purposeful stall in the latest move, rejects any other theory as insupportable.

The Reconstruction Finance Corporation which was the backbone of Federal financial policy in sharing the cares of business, and the concept on which a dozen other agencies were built, is about to be buried without the formality of obsequies. It came into being during the Hoover Administration, was a power in the Roosevelt and early Truman years, but has just about gone out of business and needs only the final spade. Unless Congress rules otherwise, and there has been no suggestion that it might even take passing notice of the event, RFC ceases to exist June 29 by Presidential order under the Reorganization Plan. A 60-day notice to Capitol Hill will expire on that day.

RFC was the major government instrument in fighting the business depression. It served its purpose well, but its big contribution was to come from

another, and unlooked-for need: World War 2 industry financing. The dismantling process began in 1954. It was through an Executive Order such as now writes finis. The 1954 program gave to the Export-Import Bank, the Small Business Administration and the Federal National Mortgage Association, functions which it was considered could better be performed by specialist agency. What's left will go to the Treasury, General Services Administration, and the Housing Administration.

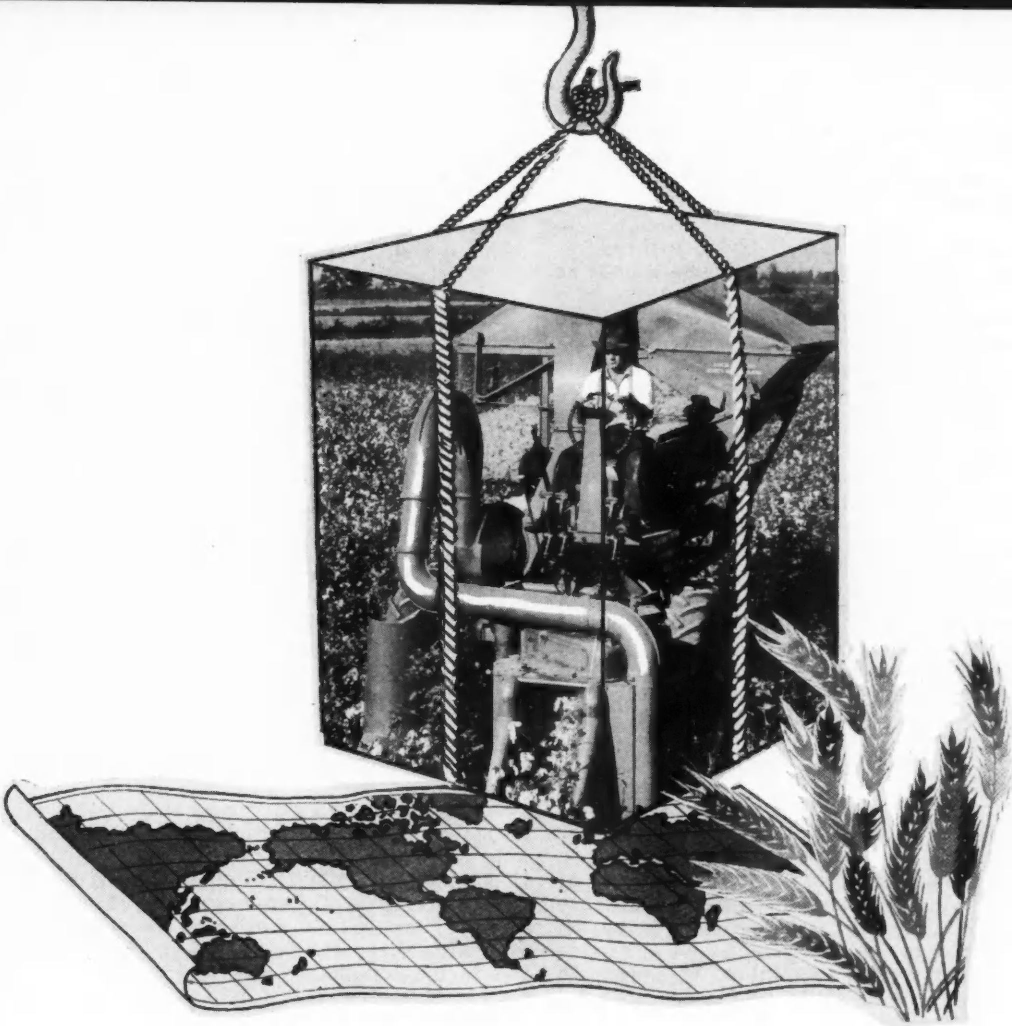
▶ Democrats think they have a telling "farm problem" issue in the making and they're beginning to whip it into shape for the off-year election. Senator Allen J. Ellender, chairman of the Committee on Agriculture, seems to be in no hurry to reach early solutions. The Louisiana lawmaker wants studies to be made now and a report submitted "next year." This is probably the first time both parties are in agreement that the current system of aid to agriculture needs overhaul, not merely repair. Secretary of Agriculture Ezra T. Benson types surplus disposal and soil bank as "the two biggest and most expensive operations in the history of farming."

▶ The Administration finds itself in a peculiar position: it was given credit for flexible price support and the soil bank and only one month ago Benson was proclaiming them as a platform on which he'd be happy to install his party in the next campaign. But there has been a "technological explosion" says Benson, referring to improved farm methods; now he favors a program that would allow farmers to raise and market "without artificial restraint." He believes it would work, but Ellender isn't willing to trust this experiment (which, in truth, would be dropping, not trying, experiments), in the present state of farm prices. To Benson's suggestion that quick rescue methods could be evolved if prices plummet and supports are not already at hand, the Senator answers: "We do not need, nor can our farmer"s afford, a program at the mercy of an agricultural czar, which evidently is Mr. Benson's desire."

▶ The "bankruptcy business" is booming. This is the crux of a report and analysis submitted to the House Appropriations Committee by Edwin Covey, bankruptcy division chief in the Administrtive Office of the United States Courts. Covey told the committee there are more bankruptcies being filed now than ever before in history. The annual rate is running at 72,000. That's more than double the number filed in 1950. Covey foresees an even higher rate in the fiscal year beginning July 1 (the date has no business significance; Covey speaks in terms of his own records, kept on the Federal fiscal year basis).

▶ Washington onlookers were suggesting in the light of a recent happening that knowing the details of inventories, shipments, billings, outlook, and reputation of management might be less important to an investor than knowing somebody inside Government. It appears that the Civil Aeronautics Board has a chink in its protective wall of secrecy. At any rate, Congress had this story: Late at night last August, CAB made a decision affecting the value of securities of airlines, and securely locked desks and, the Board thought, human lips. But the very next morning there was rapid trade in the stock of the company. Some people made some money in a rapid turnover. Although there always have been rumors around Washington that such things have happened before, there were a number of very dim looks cast upon the happening. Inquires were started by the Securities and Exchange Commission, the CAB itself, a Federal grand jury, and a Senate Committee. The object, presumably, is to see that it doesn't happen again.

▶ The next few months promise to be fateful ones in the history of the Second Eisenhower Administration. As the first President of the United States with no political future, Ike and his team have reason to wonder whether he is without a "political present.'' It does not suggest that Mr. Eisenhower is dangerously ill, to mention that he is physically less able to carry the burdens of his office than he was in his first term: it is only to quote his own frank admissions — when he announced his candidacy, and since that time. This, with an office-hungry opposition party in control of Congress, and spreading revolt within his own party adds up to an unpromising total.



U.S. Between Devil and Deep Sea on SURPLUSES

What we are trying to do to solve problem at home and abroad

By ROGER WALLACE

The governmental farm program, based on artificially high price supports to farmers, has broken down. After almost 25 years of violation of the most obvious of economic laws, that of supply and demand as the fundamental price-making factor, and after spending billions of dollars of taxpayers' money attempting to set farm products prices by fiat, Washington is beginning at last to recognize the futility of its efforts.

But, the corpse is dying hard. Although the majority of Senators and Representatives from States that are predominantly agricultural will admit privately that there is no real solution to the "farm problem" other than the abandonment of price supports and the restoration of free markets, most of them fear to take an open stand for fear of losing farm votes when the time comes for them to run for re-election.

The steady shrinkage in the number of farmers and the great rise in the non-farm population point clearly to the fact, however, that time is on the side of the restoration of free markets and a free agriculture. If consumers were as well organized and as vociferous as the shrinking farm minority, the costly experiment of artificially high price supports undoubtedly would have been abandoned long ago.

Benson Sounds Off

Secretary of Agriculture Ezra Taft Benson, who unquestionably is the bravest individual to ever occupy that position, recently took the bull by the horns and came out flatfootedly for reconsideration of the entire farm program.

In a letter on May 2 to Senator Allen J. Ellender, Chairman of the Senate committee on Agriculture and Forestry, he made the following three points:
"1. Controls are not effective in reducing over-all agricultural production, despite the severe restrictions they impose on farmers' freedom to produce and market.
"2. Agricultural products are likely to continue to be abundant. Under such conditions, they cannot be successfully priced as if they were scarce.
"3. The present legal formulas governing acreage allotments and price supports are proving obsolete."

He went on to state, "A technological explosion is occurring on American farms. Production per farm worker has doubled in the last 15 years. This creates a new dimension in farm policy and makes it virtually impossible to curtail agricultural output with the types of controls acceptable in our society."

It has taken Washington a long time to recognize the Agricultural Revolution, a development as far-reaching and as important as the Industrial Revolution spawned by James Watt's steam engine. In the case of agriculture, the mechanization of farm processes has been accompanied by the development and rapid adoption of scientific methods that make not two, but four, five, six, and even more "blades of grass" grow where one grew before. Secretary Benson is correct in speaking of this as a "technological explosion".

Agriculture, for those who produce the bulk of our farm produce and who would be quite capable of producing practically all of it if they were freed of acreage allotments, marketing quotas, and other legislative restrictions that put chains on progress, has become a "Big Business". One often is given to wonder why Washington has singled out these business men, i.e., farmers, for special attention and generous Federal handouts while, at the same time, almost every governmental move seems to make the going more difficult and burdensome for practically all other business men.

Hazards In Farming

There are recognized hazards to farming that do not exist in other enterprises. The unpredictability of the weather is one of these, although even the major hazard—drought—is diminishing as irrigation is extended each year to more and more land. However, we can think of a number of other business men—such as Summer resort operators, concessionaires at amusement parks, and the like—who also are vitally affected by the unpredictability of the weather but who would never think of begging for Federal aid even though they might be wiped out by a prolonged rainy spell. Many a well advertised department store "promotion" has turned completely sour as a result of adverse weather conditions.

Still, despite the obvious fact that agriculture does not have a monopoly on hazards, the American public probably would agree that some type of basic minimum Federal support for agriculture should be maintained for use only in "disaster", such as a serious business depression and accompanying very sharp drop in farm products prices.

No type of support program, even at 100 or 125 percent of "parity" as compared with the 75 to 90 percent rate under the present law, could be of much help to the *majority* of farmers who operate such small farms and produce so little, even in the aggregate, that it is equal to only a fraction of the amount produced by the big farm operators. For these small operators, mechanization is out of the question yet many of them still try to compete, using outdated methods, on a few acres of wheat, cotton, etc. to bring in a little cash. Unit costs, of course, are high in terms of man-hours.

Farm "Slums"

These small farm operators, "caught in the backwash of the Agricultural Revolution" as one agricultural economist puts it, constitute the nub of the farm program. In actuality, Federal farm programs have failed to lift the small farmer from his poverty stricken state and have given him little encouragement to find more profitable and remunerative opportunities. Every year sees many of these small farmers giving up, selling out to their neighbors for incorporation of their land in larger farms and mechanized operations, or abandoning their farms to let nature take over. Despite this, there still are hundreds of thousands of these small farmers who cannot make anything resembling a decent living on their now uneconomically small holdings.

The Department of Agriculture, in its customary disjointed fashion, is endeavoring to "do something" for the small, poverty stricken farmers by attempting to encourage small industries to come into these areas and utilize farmers as workers on a part time basis.

American industry being what it is, this is not an altogether practical solution, although it unquestionably has been of some help. It has been suggested that a joint effort by the Department of Agriculture, the Department of Commerce, and the Department of Labor would be a more practical solution, aimed at getting these small farmers and their families off the farms completely and into industry and commerce, where they would help to solve the great labor shortage.

One must reckon, however, with the established bureaucracy of the Department of Agriculture and its unwillingness to let go of any of its "constituents". With the number of farmers shrinking steadily and with agriculture becoming increasingly less important in the American scheme of things, many of the older USDA employees, with an eye on their pensions, are fearful that their services will not be needed much longer and particularly if the movement off the farms is accelerated by the recommended joint effort. These employees, many in policy making positions, are anxious to perpetuate their jobs until retirement becomes automatic.

Soil Bank Flop

The soil bank program, widely hailed no more than a year ago as a sure method for reducing farm production and cutting into surpluses, is proving to be a gigantic flop. In some areas, it has been no more than a drought relief program, paying farmers for taking land out of production that would not have produced much of anything because of drought.

In other areas, farmers have been willing enough to sign up to "eliminate" some of their acreage and take government payments for doing so, and then turn around and produce as much and even more than before. In some cases, the Government has paid farmers for land that would have been permitted to

lie fallow in any event. Where acreage allotments have been in effect and farmers have eliminated a portion of their allotments, the use of fertilizer has been increased to such an extent on the remaining land that higher yields have offset the acreage reduction. Land kept out of the basic crops has been and is being planted in other crops, creating surpluses of farm products where none existed before.

Theoretically, the law could be tightened up to prevent this. However, unless payments were increased very substantially, farmers would not "cooperate" to any great extent.

President Eisenhower, recognizing the practical limitations of the soil bank program, has recommended to Congress that funds for the program for the next fiscal year be reduced, and Congress may go the President one better by reducing the appropriation even further.

Fresh Surplus Headache

USDA Secretary Benson, following some measure of success in reducing the huge surpluses of farm products through very expensive give-away and cut rate export programs, now is fearful that—even with the soil bank in effect—surpluses will begin to mount again unless farm supports are lowered and continued very high level farm production is discouraged.

Under the Agricultural Act, the rate of supports is set at 75 to 90 percent of parity, with the rate determined by supply ratios. Where surpluses have been reduced substantially, as in the case of cotton under the cut-price export sales program, the support rate may have to be raised well above the 75 percent minimum. By law, the national cotton acreage allotment cannot be reduced below 17½ million acres, and many farmers have found how to raise one to two bales to the acre. For domestic use, no more than approximately 9 million bales are needed annually, now that the artificially high price of the staple has encouraged the use of synthetic fibers to such an extent.

Without cut-price export sales programs or a direct export subsidy, which amounts to much the same thing, the United States cannot hope to maintain an export market for more than one or two million bales of cotton even at current support levels to growers.

Law Change Needed

Secretary Benson would like to see the law changed to permit the setting of support levels at 0 to 90 percent of parity. Supports, he feels, should be set somewhat below the market price, based on supply and demand, rather than at a rate determined by a rather rigid formula. This would backstop farmers in the event of a sharp market collapse but would not encourage them to overproduce to "sell to the Government".

Mr. Benson believes that lower prices would result in reduced production and increased consumption, with eventual greater return to farmers. It is no coincidence, we feel sure, that per capita domestic consumption of price-supported crops has shrunk steadily for a number of years while, at the same time, per capita use of non-supported crops has increased. And, there is a sound statistical basis for Secretary Benson's belief that lower prices would serve to check overproduction.

In Congress, however, there are many who cannot or will not agree with simple but basic economic truths. This means, in the final analysis, that the force of circumstances rather than logic ultimately will be the important factor in influencing Congress to abandon artificially high price supports and regimentation of agriculture as national policies.

This might come from the commodity markets themselves, where prices of a number of commodities have fallen to well below support levels and are continuing to decline. A worldwide commodity price collapse, such as always has occurred following the inflationary binges of major wars, may force Congress to realign its thinking processes.

On the other hand, mounting dissatisfaction both at home and abroad over the methods used to reduce the farm surpluses may break the legislative jam. With high supports, continuing surpluses are a foregone conclusion, and there is no way to hold surpluses down without resorting to measures that are contrary to the American way of doing things.

It is too late now to expect Congress to take any very constructive action at this session, although there is a possibility of some patching of the present crazy quilt of farm legislation. But, time is running out for artificially high supports and regimentation of farmers.

Surplus Dumping

In one way or another, practically all of the reduction of farm surpluses has been dumping.

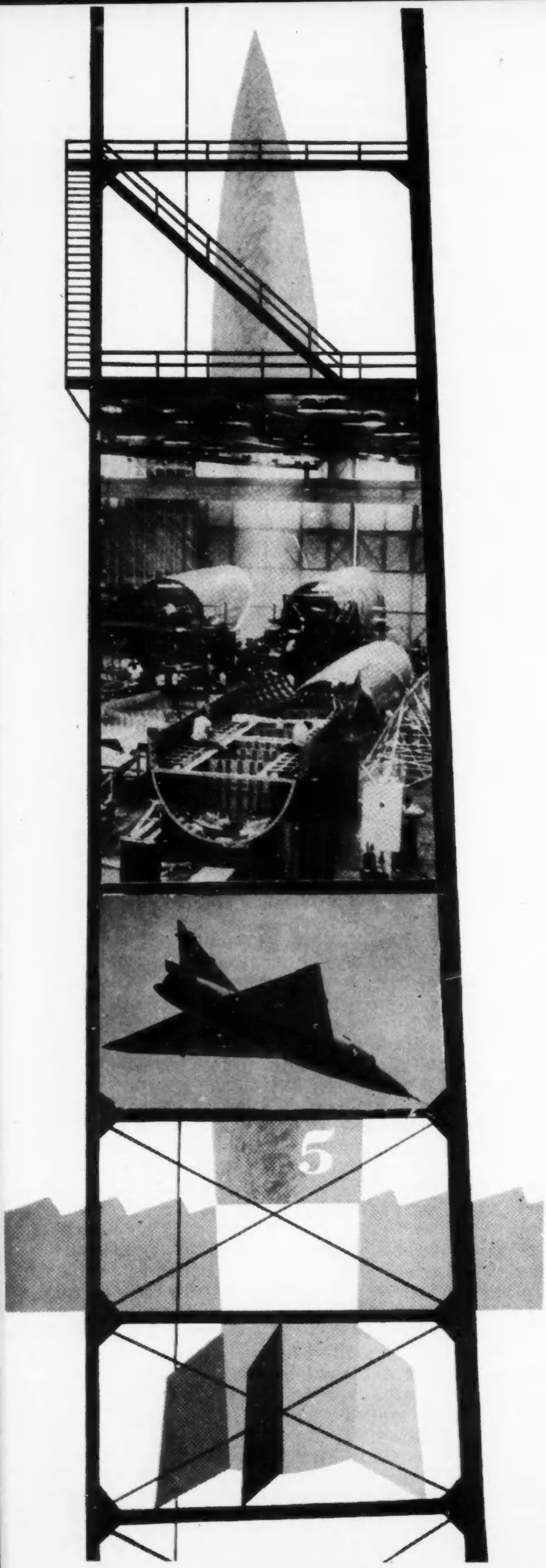
The school lunch program, first undertaken during the depression of the 1930s when there was real want among many families, persists to this day of record high per capita income. Even in swank suburban communities, the Department of Agriculture hands over surplus foods to schools. This has at least the virtue of giving a portion of United States consumers some benefits from the farm program.

Otherwise, the American consumer pays through the nose twice, first by higher taxes to support farm prices and, second, by higher prices he has to pay for food and clothing. Billions of dollars have been poured down the drain of farm relief.

We have export subsidies on wheat. Since early 1956, we have sold cotton from government stocks, taken over on price support programs, to the extent of some 11½ million bales at a loss of approximately half a billion dollars. Meanwhile, domestic cotton use has declined almost steadily since many mills cannot operate profitably at current high cotton prices. We give foreign mills the break, although they pay no part of the taxes for the farm programs here.

Since 1949, in a program just halted, the Department of Agriculture has been bartering surplus farm products from its stocks for strategic minerals for the government stockpile. One of the reasons for halting the program was the growing concern, that like other Government-sponsored export programs, the barter operation had become a "substitute for cash sales," in other words, a recognition of the fact that the Government has been interfering directly with private business.

Under Public Law 480, governments abroad are permitted to buy farm products here with their local currencies. The *(Please turn to page 312)*



Re-appraising the AIRCRAFTS Under Revised Defense Program

With Accent on — Missiles — Commercial Jets

By H. S. TRAVIS

Major air frame and engine manufacturing companies appear to be heading into a favorable year for 1957. Results of the leading companies for the first quarter which have already appeared show marked gains over sales and earnings for the corresponding period of 1956. The rest of this year is expected to produce a continuation of this trend although earnings will not show as large a gain as sales. Any forecast for this industry, however, must be hedged with certain qualifications.

In the past, the aircraft stocks have been extremely mercurial. This characteristic has manifested itself in the last year, during which aircraft stocks have fluctuated more than twice as widely as the stock market as a whole. At the moment, some of the risks attendant on investment in this field are being soft-pedaled. But if the cold war were to ease in any respect, the aircraft group would be found wanting in solid investment qualities.

A broad trend towards world peace does not appear to be underway, although there have been certain developments during the last year, such as resistance encountered by Soviet Russia in Poland and Hungary, which could take on far-reaching significance. As long as the threat of war with Russia remains, Congress is obligated to appropriate vast sums for defense, primarily to guard the nation against attack from the air, and to carry the war by air to Russia, if a conflict should develop.

Because modern air warfare gives the aggressor the opportunity to strike with lightning quickness, our military policy calls for a large and ultra-modern Air Force in being, so that we will be able to attempt to parry any blow, and retaliate effectively within hours.

This means that our policy calls not only for a very large and costly research program, under which

the air frame and engine companies receive important development contracts, but that also the national budget for 1958 calls for the expenditure of large sums for mass production of fighters, bombers, missiles and other types of advanced design weapons for the Air Force and the Navy. Such large orders are giving the aircraft companies an opportunity to show sales and earnings greatly surpassing the first ten postwar years.

Proposed Shifts in Spending for Aircrafts and Missiles

President Eisenhower's proposed budget for the fiscal year beginning next June 30, recommends new aircraft obligations, including missiles, of $6.2 billion for the Air Force, compared with $6.850 billion in fiscal 1957; and for the Navy's aircraft and missile program he would spend $1.932 billion in 1958 against $1.733 billion in fiscal 1957. Thus total commitments will be slightly lower. Last year, Congress voted $1 billion more than the President had asked.

It is noteworthy that while the 1958 budget calls for a cut in aircraft appropriations, that it would provide for a $500 million rise in missile expenditures. The budget would also call for a reduction in the number of Air Force Wings from 133 last January, to 128 wings by June of next year. The goal of 137 wings, which was established several years ago for the Air Force has been dropped, partly because missiles are assuming a more important role, while the outstanding performance and speed of the B-52 intercontinent bomber makes fighter escort unnecessary. Formerly, the B-36s, which are now being replaced by B-52s, required such fighter support.

The steady rise in spending on guided missiles has made some investment analysts less optimistic on the outlook for manufacturers of fighter planes and some other types of military aircraft. Producers who have not succeeded in obtaining a foothold in the missile field to assure diversification and minimize risks are looked upon with particular disfavor.

Perhaps as much as 30 per cent of all Air Force funds in the next fiscal year will be spent on missiles compared with 18 per cent in the last (1957) fiscal year. Within five to 10 years, spending on missiles may equal appropriations for aircraft. Hence, the best policy of any air frame or engine producer is a balanced program involving both types.

Some industry authorities are sounding a word of warning, however. These experienced observers say that push-button missile defense is not coming as rapidly as some forecasters are predicting. They are indicating that there is still vital need for manned planes, and that such need will continue for the foreseeable future. Thus, while funds for fighters and other manned planes may taper off, the com-

Statistical Data on Leading Aircraft Companies

		Earnings Per Share				Dividends Per Share		Recent Price	Div. Yield	Price Range
				1st Quarter						
	Rating	1955	1956	1956	1957	1955	1956			1956-1957
Beech Aircraft	C1	$4.35	$4.05	$ .83	$ .92	$1.20[3]	$[3]1.20[4]	24	5.0%	31¼-17¾
Bell Aircraft	C2	2.25	2.21	.62	.33	1.25	1.25	20	6.2	27 -19⅞
Boeing Airplane	B1	4.67	4.82	.94	1.21	1.62½	1.25[3]	47	2.6	65⅜-34⅝
Cessna Aircraft	C2	3.88	5.75	2.44[1]	2.21[1]	.75	[3]1.40[4]	32	4.3	45⅝-23⅜
Chance Vought Aircraft	B1	4.41	3.81	.69	.93	1.60	1.60	44	3.6	49¼-31⅜
Curtiss-Wright	B1	4.74	5.64			1.75	3.00[4]	46	6.5	49¾-26¾
Douglas Aircraft	B1	7.65	8.96	1.38	2.27	4.00	4.00	84	4.7	95⅛-72½
Fairchild Engine & Airp.	C3	1.41	.64	.05	.04	.55[3]	.25[5]	11	....	15⅝-10½
General Dynamics	B1	2.82	4.14	.57	1.14	1.26	2.00[4]	65	3.0	68⅝-37¾
Grumman Airc. Eng.	C2	4.43	3.50			2.50[3]	2.00	28	7.1	35⅞-27⅛
Lockheed Aircraft	B2	6.12	5.10	1.56	1.16	3.00[3]	[3]2.40[4]	45	5.3	58⅞-43¼
Martin Co.	B1	4.92	3.73	.59	.69	1.50[3]	[3]1.60[4]	38	4.2	47⅞-31
McDonnell Aircraft	B1	3.17	4.55	2.88[2]	4.07[2]	.50	[3] .50[4]	35	1.4	44¾-24¼
North American Aviation	B1	4.71	3.59	2.15[1]	2.31[1]	2.25	1.92½	33	5.9	49⅞-27½
Northrop Aircraft	C3	7.89	3.28	2.25[1]	1.47[1]	1.60	1.60	25	6.4	29⅛-21¼
Piper Aircraft	C1	1.62	2.88	1.27[1]	1.80[1]	.55	1.00[4]	20	5.0	21½-12⅛
Republic Aviation	C3	10.02	5.01	1.45	1.21	3.00[3]	2.00	26	7.6	43½-23⅞
Rohr Aircraft	B1	3.63	3.49	1.46[1]	1.91[1]	1.20	1.40	30	4.6	31¾-20½
Ryan Aeronautical	B1	4.07	3.36	.95	.79	.50	.50	41	1.2	41¼-29⅞
Solar Aircraft	C3	3.03	1.82	1.23[2]	d .002[2]	1.15	1.00	18	5.5	24 -17½
United Aircraft	A1	6.14	7.06	1.73	2.03	2.75	3.00	79	3.7	96½-61¾

[1]—6 months.
[2]—9 months.
[3]—Plus stock.
[4]—Latest 1957 rate.
[5]—12/5/56, no further div. action.
[6]—Paid 10% stock in 1955 and 15% stock in 1956.

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.
1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Comprehensive Statistics Comparing the Position of Leading Aircraft Companies

Figures are in millions, except where otherwise stated	Boeing Airplane	Douglas Aircraft	General Dynamics	Lockheed Aircraft	Martin Co.	North American Aviation	United Aircraft
CAPITALIZATION:							
Long Term Debt (Stated Value)	....	....	$ 52.1	$582.0	....	....	....
Preferred Stock (Stated Value)	....	....	....	....	....	....	$ 40.9
No. of Common Shares Outstanding (000)	6,666	3,705	7,724	2,953	2,904	8,015	5,140
Capitalization	$ 84.9	$ 30.8	$ 59.8	$ 61.1	$ 2.9	$ 8.0	$ 66.6
Total Surplus	$ 63.7	$ 122.1	$ 134.4	$103.6	$ 60.8	$144.6	$152.0
INCOME ACCOUNT: Fiscal Year Ended	12/31/56	11/30/56	12/31/56	12/31/56	12/31/56	9/30/56	12/31/56
Net Sales	$1,006.3	$1,073.5	$1,047.8	$742.5	$358.9	$913.8	$952.8
Deprec., Depletion, Amort., etc.	$ 6.2	$ 7.7	$ 7.3	$ 8.1	$ 1.8	$ 6.7	$ 19.3
Income Taxes	$ 35.0	$ 37.5	$ 31.8	$ 15.2	$ 12.2	$ 29.1	$ 38.0
Interest Charges, etc.	....	$ .4	$ 2.6	$ 2.8	....	$ 2.9	$ .3
Balance for Common	$ 32.1	$ 33.2	$ 31.9	$ 15.0	$ 10.8	$ 28.7	$ 36.2
Operating Margin	6.5%	6.9%	6.0%	3.9%	6.1%	6.2%	7.6%
Net Profit Margin	3.1%	3.1%	3.0%	2.0%	3.0%	3.1%	3.8%
Percent Earned on Invested Capital	21.6%	21.7%	22.4%	14.1%	17.0%	18.8%	16.9%
Earned Per Common Share*	$ 4.82	$ 8.96	$ 4.14	$ 5.10	$ 3.73	$ 3.59	$ 7.06
BALANCE SHEET: Fiscal Year Ended	12/31/56	11/30/56	12/31/56	12/31/56	12/31/56	9/30/56	12/31/56
Cash and Marketable Securities	$ 30.9	$ 72.7	$ 39.0	$ 51.4	$ 19.5	$ 57.1	$ 42.0
Inventories, Net	$ 67.5[1]	$ 183.5[2]	$ 280.4[3]	$187.3	$ 57.9[3]	$192.8	$170.5
Receivables, Net	$ 28.9	$ 34.6	$ 48.5	$ 70.6	$ 18.1	$ 90.3	$ 78.7
Current Assets	$ 282.6	$ 290.9	$ 372.3	$322.5	$ 95.8	$350.7	$291.3
Current Liabilities	$ 183.2	$ 203.5	$ 239.7	$214.2	$ 58.7	$238.8	$152.9
Working Capital	$ 99.4	$ 87.4	$ 132.6	$108.3	$ 37.1	$111.9	$138.4
Fixed Assets, Net	$ 29.1	$ 52.7	$ 56.9	$ 53.2	$ 26.5	$ 40.6	$ 77.7
Total Assets	$ 331.9	$ 356.5	$ 434.5	$384.5	$122.4	$391.4	$376.2
Cash Assets Per Share	$ 4.64	$ 19.64	$ 5.05	$ 17.43	$ 6.73	$ 7.12	$ 8.18
Current Ratio (C. A. to C. L.)	1.5	1.3	1.5	1.5	1.6	1.4	1.8
Inventories as Percent of Sales	....	....	....	25.2%	....	21.1%	17.8%
Inventories as % of Current Assets	....	....	....	58.1%	....	55.0%	58.5%

*—Data on dividend, current price of stock and yields in supplementary table on previous page.

1—Including deliveries under contract and cost-fixed fee contracts.
2—Including cost-fixed fee contracts.
3—Including unreimbursed expenditures.

panies affected may have sufficient time, if they are agile, for getting into missile development. Only the slow-moving company may wake up to find itself without either a missile or plane backlog. Hence, the companies that make fighters—Grumman, Republic, Lockheed and North American, may rally from recent lows.

Order Backlogs Huge — Large New Orders Expected

Because of the Government's policy of planning well ahead, so that the aircraft industry can produce economically and with some assurance that a given program will be continued, backlogs are extremely large. At the beginning of this year, unfilled orders totaled around $18 billion. Defense orders comprised about 70 to 75 per cent of this total, while commercial orders amounted to around 25 per cent. Over and above such orders, the Air Force and the Navy had other unobligated funds. The latter consists of $10 billion which Congress had authorized the services to spend, but which were not yet committed.

An increase in sales is indicated for this year for most aircraft companies despite a probable dip in the amount allocated under the 1958 Budget. While the number of planes to be produced for the military will decline, larger, heavier types on balance will be made. Missile output is rising. In addition, commercial plane output is also moving towards higher levels

Last year, the industry's sales rose approximately $500 million to around $9 billion, despite a dip in military plane output from 8,400 to 7,900. This year, another rise in sales of about 12 per cent is indicated for the major producers, judging by first quarter sales, as well as by production schedules for the rest of the year. Next year, further gains may occur.

The rise in sales this year is resulting in a gain in net profit for most companies, despite higher research and development costs, and increased depreciation charges on new facilities which are being completed. In 1956, net profit showed a gain for the industry of around 4 per cent, and this year's net may make an even better gain over 1956, barring unforeseen cutbacks.

Outlook for Commercial Jetliners

The four big Pacific Coast air frame producers who have commercial jet plane projects — Boeing,

Douglas, Lockheed and General Dynamics' Convair Division – are all well advanced with these planes, which now comprise important backlogs, primarily for delivery in 1959 and 1960. Prototypes of these planes and their engines have been so thoroughly tested that the risks that normally attend the introduction of new commercial planes have been greatly reduced. Meanwhile, however, engineering costs on the new commercial jet transports – Boeing's 707, Lockheed's prop-jet Electra, Convair's 880 and Metropolitan 440, and Douglas' DC-8 – are tending to reduce profits. But in the case of each of these companies, unusually good current military or commercial sales are helping to offset the heavy engineering costs on advanced commercial jet models.

While the commercial business still comprises only a small proportion of total sales, it represents a more reliable backlog than the military orders, which are subject to domestic and international politics. The commercial business, moreover, will grow, whereas military business is likely to ease off, if international tensions are reduced.

The uncertainties affecting the aircraft stocks appear at the moment to be outweighed by several favorable factors.

The uncertainties include the shift from planes to missiles; unexpected cancellations on seemingly highly regarded planes, (like Boeing's B-52 cutbacks, which were made so that greater emphasis could be placed on the faster and less costly B-58); and retrenchment policies of Congress, which this year is looking for soft spots in the President's budget for 1958.

On the plus side are the heavy backlogs, the favorable Congressional climate and the announcement by Great Britain, and the possibility of a similar announcement by France, of reduced missile research spending. This makes these countries reliant upon the United States for defensive equipment. Because we shall have to carry the burden for NATO, our missile program will have to be even larger than had previously been planned.

Several types of American missiles are scheduled for delivery overseas to NATO this year. The Douglas Honest John and Nike, and the Martin Matador are in the forefront. In addition, it is possible that Hughes' Falcon and the Douglas Sparrow will be sent abroad to our friends.

Aircraft companies which appear to be in a strong position to improve their earnings in 1957, and possibly in 1958 too, include United Aircraft, which is the outstanding producer of jet engines for the military as well as for the commercial jets on which delivery will begin late next year. United's J-75 and J-57 are the leading straight jet engines in use today.

Among the air frame producers with large backlogs and profitable production schedules are Boeing, Douglas, GD's Convair, North American, and Lockheed. Grumman and Republic, which are selling well below their highs, both have new military planes with excellent prospects, so that the missile threat does not appear to be immediate in their cases.

Contenders in the Missiles Field

Among the companies with strong positions in missiles are Douglas, with the new Nike and Sparrow; Glenn L. Martin, with the Matador, General Dynamics, with the Terrier.

There are five long range ballistic missile programs under way, two in the 5,000 mile or ICBM (Intercontinent) category, and three in the IRBM, the intermediate range. The three IRBMs are Chrysler's Jupiter, for which North American Aviation makes the rocket engine; Lockheed's Polaris, (a Navy project) for which Aerojet (General Tire) makes the rocket engine; and Douglas' Thor, for which North American makes the rocket engine. The intermediate range ballistic missiles appear to be closer to having solved technical problems and hence are nearer to production contracts.

In the ICBM class are Convair's Atlas, for which North American makes the rocket engine, and Martin's Titan, for which Aerojet makes the engine. At the moment, the most important factor in the rocket engine field is Aerojet, which is 95 per cent owned by General Tire, closely followed by North American's Rocketdyne Division. Another entry is Reaction Motors, controlled by Olin-Mathieson. While General Tire appears to be the surest to profit by growth of missiles, it must not be forgotten that United Aircraft has shown unusual ability in the past to profit by a new trend in power plants.

At the moment, United is saying nothing about its rocket plans, but it is known to have a program either underway or about to get underway.

Position and Prospects of Aviation Companies

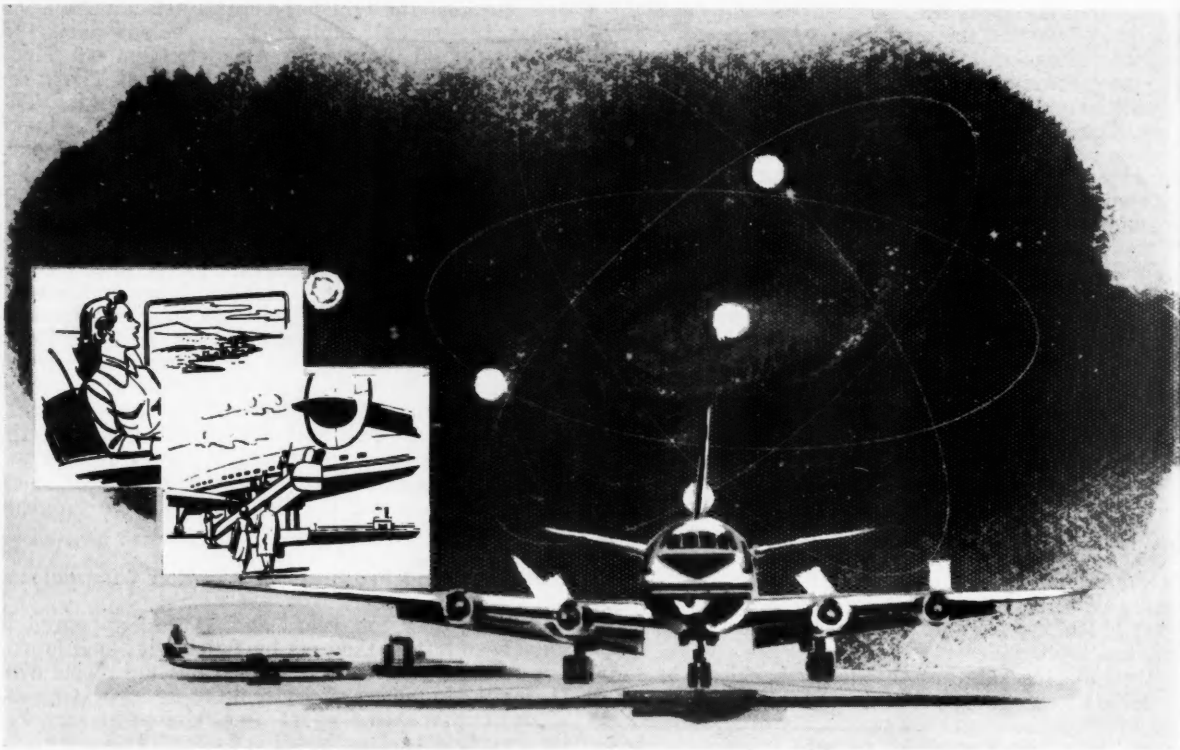
A little over ten years ago, **United** appeared to have been left at the post by British jet engine producers who pioneered that field during World War II, while United was busy making reciprocating engines. Yet, within a short time, United had worked its way to a leading position in jets. It could probably do the same with missiles although it appears to be making a late start. In the past, United has followed the policy of concentrating on production models for which the need was being expressed in large orders, but this has not kept its eye off the power plants of the future.

This year, United's sales and earnings should show another rise.

Last year, United's net rose to $7.05 a share, compared with $6.14 a share in 1955. The unfilled orders of $2.3 billion at the end of last year point to another gain in sales this year, carrying volume above $1 billion a year for the first time. In addition to getting its J-75 engine in volume production this year for several advanced type planes, United will continue to produce its highly successful J-57 jet which powers three supersonic fighters, as well as the Boeing B-52 bomber and several other tactical planes. By the end of this year, deliveries will begin on J-57 and J-75 engines for Douglas' DC-8 commercial jet, and Boeing's 707.

Over and above its powerful position in engines, United controls Sikorsky Aircraft (helicopters) which is a leader in its field, with sales of $150 million. Eventually, this property may be spun off, just as United spun off Chance-Vought, several years ago.

Along with other major aircraft and engine producers, United has been increasing its investments in facilities. Such investments are entitling the industry to a larger return on sales than they were accorded in the days when the Government furnished a large part (*Please turn to page* 313)



Lowered Ceiling on
Airline Profits

—A Study of Costs--Financing Needs--Traffic--and Outlook

By WARNER T. WILSON

Air transportation, one of the country's most popular growth industries, has proved extremely disappointing for optimistic investors. Stocks in this group which have surpassed their 1946 highs are the exception rather than the rule. Whereas air travel has expanded tremendously since the war – as had been anticipated – and gross revenues have virtually kept pace with passenger-miles flown, profits have improved comparatively little on the average and recently have shown steady deterioration.

The unpromising outlook for a recovery in earning power, combined with increasing apprehension over problems involved in a transition to jet planes from conventional propeller driven craft, has exerted renewed pressure on representative stocks. Patient holders have resigned themselves to the prospect of a long wait for renewal of confidence in a young industry apparently having vast potentials for expansion over the long-term.

Hesitancy to enthuse over the outlook for air transport companies traces to uneasiness over difficulties involved in replacing outmoded liners with modern equipment at a time when regulatory authorities appear unwilling to provide relief from the squeeze imposed on earning power by rising labor and materials costs. Investors have evidenced concern over the magnitude of costs that must be assumed in acquisition and introduction of jet planes, which will require considerable break-in operations. Doubts also have arisen as to the extent to which the public may shy away from the faster planes. Although the ratio of fatal accidents to the number of passenger-miles flown has steadily declined, fear of trouble in the air continues to restrict full public acceptance of airplanes as a means for travel.

The need for more satisfactory financial results as the time approaches for the changeover to jet planes is obvious. Unless funds are available with which to finance acquisition of equipment already ordered, the adjustment will be that much more difficult. Most airlines are planning to accept new planes beginning late next year and in 1959, so that preparations for financing must be undertaken this year. However, additional capital can be raised more readily and at lower cost if an airline can show a promising earnings record.

Higher Rates Sought to Aid New Financing

Virtually all companies have filed applications for an increase in rates averaging 6 per cent. This would be the first revision in more than five years notwithstanding mounting costs in this period and should be granted. Incidentally, the nation's railroads have received approval of requests for higher fares several times in the last few years, the most recent grant of this kind having been given to major eastern roads early in May. In the light of economics, airline officials hope their request for relief will be approved by the Civil Aeronautics Board.

Industry observers are not too optimistic, however, in view of the board's recent rejection of applications for a 5 per cent rise in trans-Atlantic fares. The board has been considering the question of fares for a year following its decision in May, 1956, to order widespread hearings on the question of possible "unjust and unreasonable" fares at a time when traffic and earnings were registering a strong uptrend. But the situation has changed, yet Washington observers feel that an attitude of careful investigation of the entire problem may delay a final decision until late this year or early 1958. The fact that the board has sought to stimulate air travel through inducement of moderate fares suggests that relief from rising costs may not be easily obtained without considerable pressure from airline executives for recognition of the facts.

Airlines appear likely to have the benefit of increased business in the meantime, however, and higher load factors may be obtained through the coming summer season. Increased railroad and pullman fares have worked to the advantage of the air transport industry. Despite the fact that so-called coach service has accounted for much of the growth in passenger-miles flown, there is little doubt that travel by air has gained thousands of recruits in the last few years and that opening of new routes will contribute to further gains. Progress has been made in minimizing losses from customers who "fail to show" after having confirmed reservations. As competition increases, this problem is expected to be licked.

Airlines Converting to New Model Planes

In the expansion recorded in the last few years costs have increased out of proportion to the additional business obtained. This has been due in part to promotional activities in behalf of air coach service at lower fares. Some economies can be achieved in more efficient handling of such traffic. Pending settlement of the controversy over fares, however, managements may feel loath to attempt to effect economies. As has been evident in the railroad industry, applications for rate increases seem to receive more earnest consideration at times when operating results are showing their worst.

Statistical Data on Leading Airline Companies

	Earnings Per Share				Dividends Per Share		Recent	Div.	Price Range
	Year 1955	Year 1956	1st Quarter 1956	1st Quarter 1957	1955	1956	Price	Yield	1956-1957
American Airlines	$2.32	$2.44	$ .35	$ .12	$ .80	$1.00	19	5.2%	26¼-17½
Braniff Airways	.91	.64			.60	.60	10	6.0	14⅞- 9⅝
Capital Airlines	5.02	[d]1.97	[d]1.15	[d]2.06	[2]	......	21	....	41½-18½
Delta Air Lines	2.62	4.70	2.29[5]	1.37[5]	1.20	1.20[3]	24	5.0	40 -22½
Eastern Airlines	5.32	5.17	1.84	1.14	1.00	1.00[3]	39	2.5	57¼-35¾
National Airlines	3.01	4.14	2.18	1.44	.80	1.00	21	4.7	30 -20
Northwest Airlines	1.80	2.18			.60	.80	15	5.3	19⅜-14
Pan Amer. World Airways	1.66	2.31			.80	.80	16	5.0	21¼-15
Trans World Airlines	1.62	[d] .70	[d] .80	[d] .97	......	......	15	....	28⅞-15
United Air Lines	3.36	4.55	.11	.11	1.50	[3] .50[4]	29	1.7	44¾-27⅝
Western Air Lines	2.67	3.91	.85	.47[6]	.90	.80[3]	22	3.5	25⅜-18⅜

[d]—Deficit.

American Airlines: Rising costs point to at least moderate drop in net income this year, but strong finances encourage hope of maintenance of $1 dividend at least until question of rates is settled. (B3)

Braniff Airways: Another dip in earnings seems probable in reflecting additional costs incident to development of new routes. Company's competitive position strengthened by recent awards. (C3)

Capital Airlines: Despite heavy costs of installation of British Viscount equipment, moderate improvement in earnings is anticipated as new planes replace more costly equipment. (C3)

Eastern Air Lines: Prospect of continued expansion in traffic between North Atlantic areas and Florida is encouraging factor. Earnings expected to hold up well and cover dividend rate. (A2)

National Airlines: Another participant in bountiful New York-Florida traffic, this carrier is expected to report above-average earnings for fiscal year ending June 30 and to maintain $1 dividend. (C1)

Northwest Airlines: Low density of domestic routes rates as primary handicap, but carrier has made progress in development of territory. Earnings decline indicated in reflecting lower capital gains. (C3)

Pan American World Airways: Because of importance of mail pay in some vital overseas routes, projections of earnings are difficult. Major financing program required for new jet equipment. (B1)

Trans World Airlines: Major carrier controlled by Hughes Tool Co. expected to register progress this year, put mail pay on overseas routes is important earnings determinant. Dividends unlikely. (C3)

United Air Lines: Further decline in earnings anticipated in reflecting rising costs, but financial position seems adequate to assure successful financing of equipment purchases while covering dividends. (B3)

Western Air Lines: Freedom from repetition of labor trouble holds out hope for improved results this year, especially if anticipated traffic gains on new routes can be developed. (C1)

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trends.

Comprehensive Statistics Comparing the Position of Leading Airline Companies

Figures are in millions, except where otherwise stated	American Airlines	Eastern Air Lines	National Airlines	Pan-Amer. World Airways	Trans-World Airlines	United Air Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	$ 28.4	$ 50.0	$ 6.2	$ 77.7	$ 65.9	$ 60.3
Preferred Stock (Stated Value)	$ 15.6					
No. of Common Shares Outstanding (000)	7,888	2,849	1,037	6,175	3,337	3,225
Capitalization	$ 51.7	$ 53.5	$ 7.2	$ 83.8	$ 82.5	$ 92.6
Total Surplus	$104.5	$ 87.6	$ 22.9	$115.5	$ 53.6	$ 79.1
INCOME ACCOUNT: Fiscal Year Ended	12/31/56	12/31/56	6/30/56	12/31/56	12/31/56	12/31/56
Total Oper. Revenues	$291.4	$228.0	$ 55.4	$289.0	$240.3	$262.7
Deprec., Depletion, Amort., etc.	$ 19.6	$ 23.0	$ 4.5	$ 22.1	$ 20.3	$ 21.5
Income Taxes	$ 20.0	$ 14.7	$ 4.2	$ 12.4	....	$ 12.7
Interest Charges, etc.	....	$ 2.0	$ .3	$ 2.0	$ 1.8	$ .3
Balance for Common	$ 18.9	$ 14.7	$ 4.3	$ 14.2	$ [d]2.3	$ 10.3[1]
Operating Margin	12.6%	13.0%	17.1%	7.7%	....	9.2%
Net Profit Margin	7.5%	6.4%	7.9%	4.9%	....	3.9%
Percent Earned on Invested Capital	15.2%	16.1%	18.0%	11.7%	....	9.2%
Earned Per Common Share*	$ 2.40	$ 5.17	$ 4.14	$ 2.31	$ [d].70	$ 3.21[1]
BALANCE SHEET: Fiscal Year Ended	12/31/56	12/31/56	6/30/56	12/31/56	12/31/56	12/31/56
Cash and Marketable Securities	$ 65.9	$ 42.0	$ 11.0	$ 33.9	$ 23.7	$ 48.6
Inventories, Net	$ 1.7	$ 1.3	$ .6	$ 5.3	$ 2.5	$ 2.8
Receivables, Net	$ 40.5	$ 17.2	$ 4.7	$ 39.7	$ 17.8	$ 36.3
Current Assets	$108.8	$ 60.6	$ 16.6	$ 86.0	$ 54.1	$ 88.9
Current Liabilities	$ 84.4	$ 44.7	$ 11.7	$ 73.9	$ 47.1	$ 60.4
Working Capital	$ 24.4	$ 15.9	$ 4.9	$ 12.1	$ 7.0	$ 28.5
Current Ratio (C. A. to C. L.)	1.2	1.3	1.4	1.1	1.1	1.4
Fixed Assets, Net	$ 21.4	$124.7	$ 26.6	$152.0	$114.6	$148.9
Total Assets	$249.3	$195.0	$ 47.0	$281.3	$196.0	$242.4
Cash Assets Per Share	$ 8.35	$ 14.75	$ 10.69	$ 5.49	$ 7.10	$ 15.09

[d]—Deficit.

*—Data on dividend, current price of stock and yields in table on previous page.

[1]—Before gain on sale of aircraft.

So as to appreciate the financial hurdles faced by the industry in the next few years, it may be well to review typical procurement programs calling for deliveries of advanced models in the five years beginning in 1958. For example, Pan American World Airways has placed orders for 23 Boeing 707 turbojet planes and 25 Douglas turbojet DC-8s. The fleet is expected to cost about $295 million to $300 million. New planes ordered by Eastern Air Lines at a cost estimated at $240 million to $250 million include 40 Lockheed turboprop jet Electras and 20 Douglas DC-8s. American Airlines' program involving an estimated $200 million includes 35 Lockheed Electras and 30 Boeing 707s. Both Trans World Airlines and United Air Lines propose to spend almost $200 million each on new planes. The latter's order for 30 Douglas DC-8s represents its initial venture into jet operations. TWA has ordered 30 Convair turbojet 880s and eight Boeing 707s. Seven other smaller lines have placed orders for jet planes costing upward of $350 million. In all, expenditures approximating $1,500 million are contemplated in connection with the domestic airlines' equipment program in the next four years as the jet age dawns.

A straw in the wind reflecting growing uncertainty over plans for installation of modern equipment attracted attention recently when Capital Airlines announced it had decided to hold up procurement of additional planes and had deferred taking down a $45 million bank loan. This action left in doubt the company's intention to accept 15 additional Vickers Viscount planes which had been scheduled for delivery later this year. The line already has received almost 60 planes of this type and says they have proved profitable. The company announced postponement of acquisition of ten Comet jet airliners which the British manufacturers were to have delivered beginning in 1959. Contributing to the decision to slow down its transition program was inability on the part of Capital to find a buyer for ten Constellation liners which it contemplated selling preliminary to acceptance of the additional Viscounts.

Adoption of such an extensive and costly modernization project testifies to the industry's outstanding progress in a comparatively few years. Determination to spend a sum such as indicated above expresses confidence in continued growth of air transportation at an increasing rate. Air travel hesitancy is becoming less evident as younger generations come of age. All indications point to steady gains in revenues in the years ahead. Passenger-miles flown by trunkline systems increased about 13 per cent last year (*Please turn to page* 315)

Important Annual Oil Company Reports—

Released Since Our Special Oil Appraisal

RICHFIELD OIL
SOCONY MOBIL OIL
STANDARD OIL OF NEW JERSEY

When our April 13, 1957 issue went to press, the 1956 financial reports of three leading oil companies had not been released as yet. Therefore, these reports could not be included in our article "Global and Domestic Outlook for Oil." As the 1956 financial statements, as well as first quarter reports, are now available, we present them in this issue for the benefi of our subscribers.

SOCONY MOBIL, as a leading domestic and international company, has grown in importance in the last few years through its expansion in this country, Venezuela and Canada. Operations for 1956 were adversely affected by the closing of the Suez Canal, but the impact on earnings was offset by the continued growth of the company's productive properties in areas other than the Middle East. Socony came through the Suez crisis quite successfully. Sales for the year advanced to $2.75 billion from the year earlier level. Net income jumped 20% to $250 million as price increases more than compensated for higher labor and material costs. The per share results of $5.70 in 1956 against $4.74 a year previous are adjusted for the 25% stock dividend of June, 1956. The company consolidated the accounts of all foreign and domestic subsidiaries, more than 50% owned in 1956.

In the first quarter of 1957 Socony reported estimated earnings of $70 million equal to $1.53 per share on the average number of shares outstanding in the period, compared with $62 million or $1.42 per share for the same three month period last year. No sales comparisons are available.

Results for the rest of the year will depend on Middle Eastern developments and the stability of oil prices, which have shown some signs of easing from the levels prevailing during the crisis.

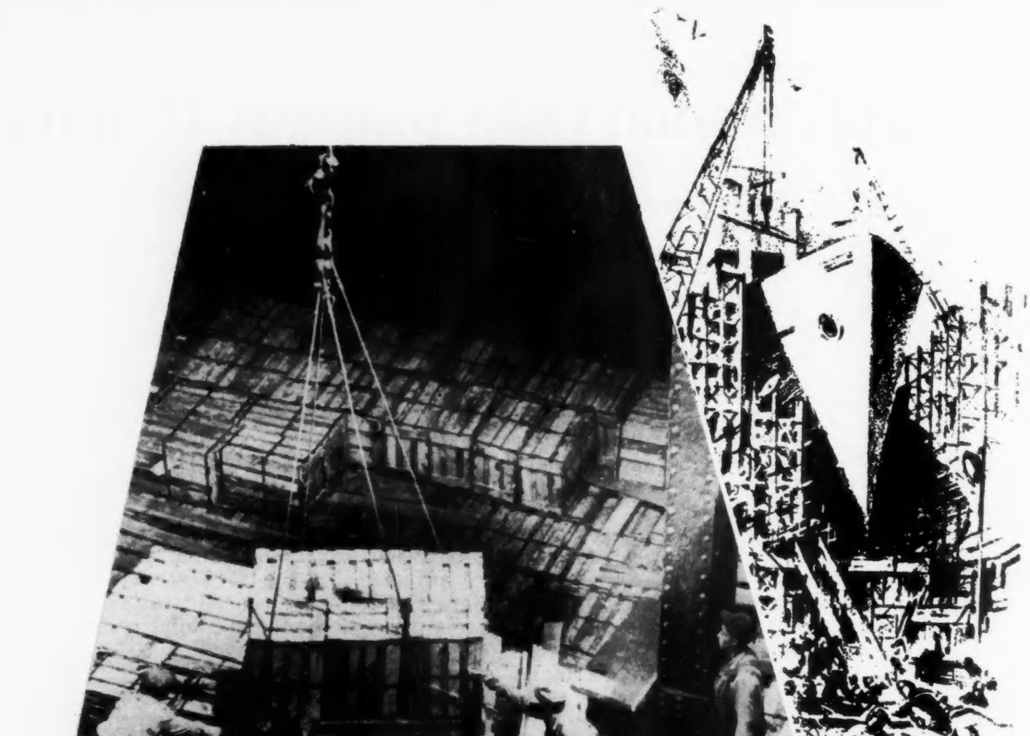
STANDARD OIL OF NEW JERSEY'S operations in 1956 demonstrated the company's resourcefulness and ability to shift its ground quickly to meet adversity. When turmoil struck the Middle East, Jersey was able to move quickly to continue the flow of oil to Western Europe. Tankers were rerouted, transportation routes within the United States were altered to bring forth oil from areas which had never before serviced Europe, and in all, the company was able to supply 40% of all the Western Hemisphere oil diverted to Europe to fill the gap left by the curtailment of production in the Mediterranean area.

Production for the year averaged 2.3 million barrels of oil per day, including over 1 million barrels from Creole Petroleum, its Venezuelan subsidiary, 500,000 barrels from domestic production, and almost 500,000 from the Eastern Hemisphere.

Total sales for the year scored a sharp (*Please turn to page* 319)

Figures are in million dollars except where otherwise stated.	Richfield Oil	Socony Mobil Oil	Standard Oil of New Jersey
CAPITALIZATION:			
Long-Term Debt (Stated Value)	$ 78.0	$ 211.4	$ 585.0
Preferred Stock (Stated Value)	....	....	....
No. of Common Shares Outstanding (000)	4,000	43,797	196,939
Capitalization	$152.7	$ 877.2	$1,963.5
Total Surplus	$134.4	$1,412.3	$3,732.8
INCOME ACCOUNT: Year Ended	12/31/56	12/31/56	12/31/56
Net Sales	$253.9	$2,750.3	$7,126.8
Depletion, Amortization, etc.	....	$ 94.8	....
Depreciation, Retirements, etc.	$ 23.9[2]	$ 105.4[3]	$ 388.2[1]
Intangibles, Devl. Costs, Losses on Leases, Drilling Costs, etc.	$ 8.7	....	....
Total Income Taxes	$ 14.5	$ 103.2	$ 430.0
Interest Charges	$ 2.8	$ 9.6	$ 21.2
Balance for Common	$ 26.5	$ 249.5	$ 808.5
Operating Margin	16.9%	11.5%	16.7%
Net Profit Margin	10.4%	8.9%	11.3%
Percent Earned on Invested Capital	12.7%	12.0%	15.8%
Earned Per Common Share	$ 6.64	$ 5.70	$ 4.11
BALANCE SHEET: Fiscal Year Ended	12/31/56	12/31/56	12/31/56
Cash and Marketable Securities	$ 23.2	$ 223.0	$1,249.4
Inventories, Net	$ 27.6	$ 357.7	$ 636.1
Receivables, Net	$ 43.9	$ 353.8	$ 897.5
Current Assets	$103.1	$1,016.0	$3,008.4
Current liabilities	$ 29.9	$ 425.6	$1,358.2
Working Capital	$ 73.2	$ 590.4	$1,650.2
Fixed Assets, Net	$199.8	$1,521.2	$4,355.1
Total Assets	$317.1	$2,819.6	$7,901.5
Cash Assets Per Share	$ 5.80	$ 5.09	$ 6.33
Current Ratio (C. A. to C. L.)	3.4	2.4	2.2
Inventories as Percent of Sales	10.8%	13.0%	8.9%
Inventories as % of Current Assets	26.3%	35.2%	21.1%

1—Includes deprec. deple,tion, amort., and retirements, etc.
2—Includes depletion and amortization.
3—Includes intangible develop., etc.



Can Boom Persist in SHIPPING and SHIPBUILDING?

By MARVIN S. RAPHAEL

Not since World War II, has the future looked so bright for the shipbuilding industry. Seldom before in peacetime have domestic shipbuilders enjoyed such a high level of capacity operations and profitable business.

As recently as last year, the nation's shipyards were taking orders at minimum profit margins to keep from becoming idle. With a backlog of several years business, shipbuilders are now in a position to write contracts assuring much more favorable profit margins. In addition, because of the length of time, involved, provision is made for escalator clauses for contingent increases in labor and material costs. While it may be a year or so before these new contracts are reflected in earnings to any substantial degree, shares of some of the companies are still at reasonable levels to offer good growth opportunities.

A major factor that has contributed to the shipbuilding boom was the closing of the Suez Canal last year and subsequent Middle East difficulties. This brought about the realization that the Free Nations of the world could no longer depend upon this waterway as an assured means of navigation. With this in mind, the oil companies and independent tanker operators decided to build larger, faster and

Position of Leading Shipbuilders

	Rating	Earnings Per Share 1955	Earnings Per Share 1956	1st Quarter 1956	1st Quarter 1957	Dividends Per Share 1955	Dividends Per Share 1956	Recent Price	Div. Yield	Price Range 1956-1957
American Shipbuilding	B2	$1.32	$5.62	d$5.93[2]	d$3.14[2]	$3.00	$3.00	85	3.5%	105 -16
Bath Iron Works	B1	6.19	6.71	na	na	2.60	3.60[1]	63	5.7	67⅜-43
Bethlehem Steel	A1	4.52	3.83	1.13	1.24	1.81	2.40	46	5.2	49⅝-35⅛
Newport News Shipbldg.	B1	6.03	4.25	[3]	[3]	3.00	2.50	77	3.2	87½-50
New York Shipbuilding	C2	1.43	2.25	[3]	[3]	.50	1.40[1]	35	4.0	58 -19
Todd Shipyard Corp.	B1	4.09	7.07	[3]	[3]	4.00	5.00[1]	98	5.1	101 -63½

na—Not available as yet.
[1]—Latest 1957 rate.
[2]—6 months ended 12/31/55 and 12/31/56.
[3]—Companies do not issue quarterly reports.
RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

more modern ships that could circumvent the Canal, if need be. Even further, tankers are being built with a displacement of over 100,000 tons, making the operators no longer dependent on Suez as a navigation channel.

At present, tankers account for a substantial portion of approximately one billion dollars commercial orders on American shipbuilders' books. Since oil is needed to run industry throughout the world, and since all indications point to oil consumption increasing sharply over the next five years, it appears safe to assume that this type of business should not only flourish, but will become increasingly profitable.

In an effort to offset foreign competition, the Government's Maritime Administration announced a program last year of allowing an operator of American flag tonnage to transfer such vessels to foreign registry under the condition that they build equivalent replacement tonnage in U. S. shipyards. This program not only increased domestic orders for tankers, but it also benefited the dry cargo and ore carrying vessels as well. Demand remains strong for these types of ships. Coal and iron ore carrying ships alone could account for a substantial increase in our domestic merchant fleet. This is due, in part, to Europe's urgent need for coal and iron ore as well as the tremendous volume of ore shipments from Venezuela to this country's steel mills.

World's Merchant Fleet Becoming Obsolete

Another significant factor in the outlook for the industry is the fact that the Free World is facing inadequacy and obsolescence in its merchant fleets. Our Government, in order to alleviate this, has set forth a policy geared to building and maintaining a modern fleet, not only for commerce, but for readiness in case of war. To benefit shipping, as well as shipbuilding, the Maritime Administration has a program calling for the replacement of passenger and dry-cargo vessels (when operated under subsidy) when they are over 20 years of age. In the next fifteen years, this replacement program could amount to more than three billion dollars.

Completion of the St. Lawrence Seaway, sometime in 1959, will open the Great Lakes to ocean-going ships which should further implement the need for more vessels. Another important aspect of both shipping and shipbuilding is the recent developments of the "roll on, roll off" trailerships. This area of activity, while young, has tremendous growth possibilities and will require special crafts.

Furthermore, atomic or nuclear propulsion (which is expected to make inroads in both the merchant and naval fields) should materially stimulate shipbuilding. In fact, our Government is reported to be ready to announce the awarding of several contracts, possibly this year.

Of course, the largest factor in shipbuilding continues to be the Naval construction program. In the President's budget for fiscal 1958, a 12% increase in funds to $1.5 billion was requested, largest in recent years. New type weapons and a different concept of naval warfare have changed the needs for a modern fleet. In addition, the Navy's ultimate objective of a nuclear powered fleet should further stimulate the shipbuilding program, particularly in light of the success of the Nautilus, the first atomic-powered submarine.

Brief Reports on Shipbuilders

At this point, it seems pertinent to discuss some of the companies which are benifiting from this dramatic program.

Notable among these, is **American Shipbuilding** of

Position of Leading Shipping Companies

	Rating	Earnings Per Share 1955	Earnings Per Share 1956	1st Quarter 1956	1st Quarter 1957	Dividends Per Share 1955	Dividends Per Share 1956	Recent Price	Div. Yield	Price Range 1956-1957
American Export Lines	B1	$3.82	$9.53	$1.66	$ .71	.....	$2.00[1]	27	7.4%	31¼-17⅜
American Hawaiian S. S.	B2	7.71	8.63	4.22	.51	$1.50	......	109	....	142½-86
Moore McCormack Line	B1	2.81	3.02	.58	.70	1.50	1.50	23	6.5	25¼-18⅜
U. S. Lines	B1	5.34	9.79	.93	.95	1.50	2.00[1]	32	6.2	37⅛-22⅝

[1]—Latest 1957 rate.
RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

Comprehensive Statistics Comparing the Position of Leading Shipbuilding and Shipping Companies

Figures are in millions except where otherwgise stated.	Shipbuilding			Shipping		
	American Ship Building	Bath Iron Works	Newport News Ship-Building	American Export Lines	Moore McCormack Lines	U. S. Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	....	....	....	$ 16.3	....	$ 57.9
Preferred Stock (Stated Value)	$ .1	....	....	....	....	$ 1.3
No .of Common Shares Outstanding (000)	109	419	800	1,200	1,988	1,615
Capitalization	$ 5.2	$ 4.1	$ 20.0	$ .5	$ 23.9	$ 60.9
Total Surplus	$ 6.9	$ 15.2	$ 29.9	$ 63.1	$ 53.8	$ 73.7
INCOME ACCOUNT: Fiscal Year Ended	6/30/56	12/31/56	12/31/56	12/31/56	12/31/56	12/31/56
Net Sales	na	$ 44.8	$117.7	$ 69.6	$ 60.1	$128.1
Deprec., Depletion, Amort., etc.	$ .6	$ .5	$ 1.9	$ 3.9	$ 2.3	$ 6.6
Income Taxes	$ .6	$ 4.0	$ 4.9	....	$ 3.2	$ 3.6
Interest Charges, etc.	....	....	....	$ .5	....	$ 1.6
Balance for Common	$ .6	$ 2.8	$ 3.4	$ 11.4	$ 6.0	$ 15.8
Operating Margin	na	14.7%	na	18.2%	10.6%	13.6%
Net Profit Margin	na	6.2%	2.8%	16.4%	9.9%	12.3%
Percent Earned on Invested Capital	5.1%	14.4%	6.7%	17.9%	7.7%	20.6%
Earned Per Common Share*	$ 5.62	$ 6.71	$ 4.25	$ 9.53	$ 3.02	$ 9.79
BALANCE SHEET: Fiscal Year Ended	6/30/56	12/31/56	12/31/56	12/31/56	12/31/56	12/31/56
Cash and Marketable Securities	$ 3.7	$ 9.9	$ 13.4	$ 11.3	$ 5.0	$ 8.4
Inventories, Net	$ 2.2	$ 1.7	$ 6.7	$ .8	$ .3	$ 1.5
Receivables, Net	$ 1.9	$ 12.0	$ 8.0	$ 8.2	$ 6.3	$ 17.0
Current Assets	$ 8.0	$ 26.9	$ 49.4	$ 23.3	$ 21.4	$ 38.2
Current Liabilities	$ 1.3	$ 14.0	$ 21.4	$ 9.1	$ 9.2	$ 21.3
Working Capital	$ 6.7	$ 12.9	$ 28.0	$ 14.2	$ 12.2	$ 16.9
Current Ratio (C. A. to C. L.)	6.1	1.8	2.3	2.4	2.3	1.7
Fixed Assets, Net	$ 4.7	$ 6.0	$ 21.3	$ 40.2	$ 23.7	$103.6
Total Assets	$ 13.0	$ 33.4	$ 71.4	$ 98.3	$103.4	$200.9
Cash Assets Per Share	$ 34.66	$ 23.85	$ 16.85	$ 9.48	$ 2.53	$ 5.25

*Data on dividend, current price of stock and yields in supplementary table on previous page.

na—Not available.

Cleveland, Ohio which until the present has been restricted to the construction of vessels for the Great Lakes area. Recent surveys indicate a substantial increase in business will flow to the Great Lakes ports with the opening of the St. Lawrence Seaway. The building of vessels of U. S. registry for foreign trade is being contemplated to service the heavily industrialized ports on the Great Lakes and adjacent areas. With unrestricted access to the sea, American Ship Building should have a broader market for the building of merchant and naval craft. The company's backlog is currently about $40 million, including the largest type bulk cargo carrying vessel and two destroyer escorts for the Navy. In the fiscal year which ended June 30, 1956, American Ship reported earnings of $5.62 a share versus $1.32 in 1955.

Bath Iron Works, noted primarily as the leading builder of destroyers for the Navy, recently announced its backlog at $130 million, the highest it has been in several years. Included in this figure is an approximate $35 million contract for two newly designed guided missile destroyers for the Navy. Bath has not participated in the shipbuilding upsurge to the same extent as companies that are building commercial type vessels. However, it is expected that with the expanded Naval ship program, the company will receive more than its usual proportion of orders than other companies which are concentrating in the commercial field. With defense priorities Bath should get all the steel and other materials that are in short supply. This has been a problem with other units in the industry. Last year, Bath reported earnings of $6.71 a share which compares favorably with $6.19 in 1955.

Bethlehem Steel, as the nation's largest domestic shipbuilder, stands to benefit tremendously from this new program. Bethlehem Steel's shipbuilding division has 11 yards with 42 ways located on both coasts and it is reputed to account for approximately 10% of the company's total volume. It is quite possible that profits could account for an even larger proportion although no such information has been released by the company on this. A recent news item stated that Bessie's Marine construction backlog, including orders from the U. S. Navy, exceeded $500 million against $270 million last year. According to the 1956 annual report of Bethlehem Steel, the company's orders on hand at the end of the year were for 53 major vessels aggregating more than 1.5 million tons. These included 16 ships for the U. S. Navy and 37 tankers, ranging up to 100,000-ton vessels.

Included in the new naval orders was a contract for the first nuclear-powered guided-missile cruiser. Bethlehem's yards are (*Please turn to page* 317)

THE EDITORS' INVESTMENT CLINIC

Among the many inquiries which we receive from our subscribers, we feel that it is appropriate to select inquiries of general interest to our readers from time to time and publish our comments, as we are doing this issue.

Inquiry #1—*"I have been holding good quality stocks such as:*

Consolidated Edison	National Lead
DuPont (E.I.)	Union Carbide
General Electric	Woolworth (F.W.)

What would you do with these issues at this time?" D. F. H., Pittsburgh, Pa.

This investor seems satisfied that the stocks which he holds are of good quality and we agree with his judgement in this respect, although we do not know his investment objectives. Perhaps the clue to his inquiry can be found in the fact that he is asking what to do with the stocks held *at this time.* We can fully understand his reason for asking this question, as many Government officials, economists, and business men appear to hold conflicting views on the outlook, at least over the near-term. Further, the investor may be well aware that we have recently been enjoying "boom" years and that a number of signs have now appeared on the horizon that business activity may be leveling off, or perhaps declining, at least in important areas of the economy.

The answer to this investor's inquiry will of course depend on a number of considerations, including his long-term objectives. For instance, were the six stocks mentioned above bought many years ago at low prices and are they still considered as investment holdings to be held for a period of years in the future? If there is no doubt as to the investment quality and outlook for the stocks held, then it would appear that the investor is really asking whether he should sell his good quality issues at a time when we may be at or near the peak of prosperity in the current business cycle. If this is really his question, and he has an enormous profit and wants to cut down his costs, then our advice would be to sell part of his holding in each instance and place the proceeds in a savings bank, or in a reserve fund.

On the other hand, it is possible that this investor is seeking to re-examine or reappraise his portfolio as to industries and individual issues. We believe that such reappraisal should be made by every investor from time to time, or by competent financial advisors on his behalf. We believe that the investor's portfolio, as represented by the six stocks mentioned, is well diversified as to industries. We say this, notwithstanding the fact that both DuPont and Union Carbide represent leading companies in the chemical industry. In important respects, each of these companies is engaged in producing chemicals of a different or distinct nature. Further, DuPont has a large investment in General Motors, which gives the company further diversification.

We recognize that each of the six companies are changing their methods and products, in order to compete successfully in their respective industries in future years. These changes are characteristic of the progress of American industry in general. They may be viewed as reflecting progressive and far-sighted management, perhaps the most valuable asset of any corporation.

In brief, we feel that the investor has made excellent selections as to the quality of the issues held. We believe that a prudent investor might well desire to sell part of his holdings of even the best stocks at this time, either to write-down his original cost or to establish a reserve in the form of cash or the equivalent for future purchases, when they can be made at more favorable prices. On the other hand, there are some long-term investors who desire to hold their quality through good times and bad times, disregarding fluctuations of the business cycle, or whether the particular issues may be viewed as high or low in relation to immediate value. We feel that this particular enquiry does not come under this category and therefore we have suggested partial sale of his holdings, if he so desires.

Inquiry #2: *"I am holding a number of stocks which show me good profits and I hate to sell any of them because I would have to pay a high tax to the government. What do you recommend?" A.J.S., Orlando, Fla.*

Too many people are influenced by the capital gains tax, when in reality the only investment reason for selling or holding any issue is its investment standing at the present time. Each investment has to be scrutinized to ascertain whether the prospects for the company are still bright and if the market price has discounted most of its potential.

If investigation shows no further reason to hold the stock, the prudent course would be to sell, accept the profits and treat the capital gains tax as an additional investment cost. Too often investors hold on to securities to avoid paying the tax only to find that their profits have eroded as the market changes its evaluation of the company's prospects.

Unfortunately, the capital gains tax is often misunderstood. Most people keep the 25% *maximum* long-term tax constantly before their eyes and assume that this will be their tax. Actually, the 25% rate applies only to taxpayers (filing joint returns) with taxable incomes of $36,000 or more, and to single tax payers with taxable incomes of $18,000 or more. A few examples will clarify this point: Assuming the filing of a joint return and a $5,000 profit in each of the following cases:

(1) An investor with more than $36,000 in taxable income will pay a maximum of 25% on his capital gain.

(2) An investor with a taxable income of $20,000 excluding security profits, is liable for $5,280 in taxes. By using the alternate method of tax computation, we find that his total tax on income and profit is $6,230, of which $950, or 19% of his profit represents the capital gains tax.

(3) An investor with a taxable income of $12,000 is liable for $2,720 in taxes. Again using the alternate method, the total tax on income and profit will be $3,470, of which $750, or 15% of the profit represents the capital gains tax.

For the average investor, then, the risks entailed in holding stocks which should be sold merely to avoid the taxes can be costly.

Of course, as in all other investment decisions, it is the problem of evaluation which is most important. If a sale is indicated, and the market seems too high to warrant making replacement commitments, the net funds, after taxes, can be held in a liquid reserve for better timed opportunities.

On the other hand, if the stocks under considration ar not out of line but are merely threatened by a poor market, they should be retained for averaging as the price declines. All stocks fluctuate, regardless of their intrinsic value or their investment calibre. If they are companies, however, with activities diversified into numerous industries and products, the decline is not likely to be as severe. It is this growth of multi-industry and multi-product companies, as a matter of fact, that has made the market one of individual issues in recent years rather than a single entity that can be described or measured by a narrow group of issues constituting an "average".

The investor who is reluctant to sell because of the tax he must pay is immeasurably increasing his risks and is introducing a factor in his investment program which is not subject to evaluation except in terms of his own personality make-up. Taxes are always with us, and are better viewed as a normal business cost.

Inquiry #3: *"I am interested in knowing more about Dollar Averaging. What are the advantages and disadvantages of this method of investment?"*

E.B.S., Bridgeport, Conn.

We have found from experience that Dollar Averaging is often misunderstood or confused with other investment methods, such as "market averaging" and employee stock purchasing plans. Therefore, we may begin by defining what Dollar Averaging means, when followed over a period of years.

This method is essentially a long-term program providing for regular investment of a fixed amount of dollars in one or more stocks, regardless of price. In other words, if the sum invested is $1000 every year over a period such as 20 years, then some purchases will be made at high prices and others at low prices. However, the $1000 will buy more shares at the lower prices, so that over the entire period the average cost per share will be lower than if one were to average down by buying the same number of shares at each decline in price.

Thus, in the case of dollar averaging if one were to buy $1,000 worth of a $100 stock, giving him 10 shares, and later were to buy $1,000 worth of the same stock when the price declined to $50, giving him an additional 20 shares, he would have 30 shares in all for $2,000 at an average price of $66⅔ per share. On the other hand, if one were simply to buy an equal number of shares at each decline, he would have bought 10 shares at $100 for $1,000 and 10 shares at $50 for a total cost of $1,500. The 20 shares acquired for $1,500 would have cost $75 per share, a higher average price than in the Dollar Averaging Method. Similar results would obtain if these plans were used to purchase stock at each rise in price.

Thus, Dollar Averaging is different from "market averaging," which involves buying a fixed number of shares each time that a stock advances or declines a given number of points as shown in our illustration above.

At this point, two examples may be given of how Dollar Averaging works. In both examples, let us assume an investment of $1000 each year, over the 20 year period from 1937 to 1956 inclusive, at the average price of the stock for each year.

(1) The investor buys $1000 worth of DuPont in 1937 at 34¾ (the average price ajusted for the 4-for-1 split of 1949). He thus obtains 28.8 shares. He makes the same commitment each year, up to and including 1956, when his $1000 obtains only 4.85 shares as the average price for that year is 206. He now holds approximately 393 shares for which he paid $20,000. At the current price of 199¾, his investment is worth $78,501.75.

(2) The same investor buys $1000 worth of Pennsylvania Railroad in 1937 at the average price of 35⅛, obtaining 28.5 shares. He follows the same procedure each year, until 1956, when the average price has declined to 24½ and he can thus buy 40.8 shares. He now holds a total of 879 shares at a cost of $20,000. At the current price of 21⅛, his investment has a market value of $18,568.88.

The results in the two examples are thus widely different. In the case of DuPont, the investor has a profit of $58,501.75 on his $20,000 commitment over the 20 years. On the other hand his Pennsylvania Railroad investment shows a loss of $1,431.12.

This illustrates the well-proven fact that no mechanical method or arithmetical system can be substituted for judgment or selection in making investments. It is true that the investor would have a greater profit today if he had placed the whole $20,000 in DuPont in 1937, rather than Dollar Averaging. However, he would have a larger loss today in Pennsylvania Railroad if he bought all his stock in 1937 at 35⅛, as it is now 21⅛.

In brief, Dollar Averaging has its advantages as an offset to market fluctuations, although it can not compete with sound judgment in investment matters.

The investment clinic will be a regular feature and in future issues we will answer other inquiries of general interest to our readers.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Square D Company

"I have recently become a subscriber to your magazine and find it very helpful. My first inquiry is on Square D Co. Please furnish what recent pertinent information you have on the company."

R. N., Cedar Rapids, Iowa

Sales of Square D Company, manufacturer of electrical distribution and control equipment, rose to a new high of $102,354,200 in 1956. This was a 30% increase over sales of $78,726,600 in 1955, a previous high.

Net income of the company and its consolidated subsidiaries rose 39% to $11,669,000, equal to $2.28 a share on 5,113,011 shares of common stock outstanding on December 31st, 1956, compared to $8,386,000 or $1.65 a share on 5,082,936 shares outstanding on December 31st, 1955. The latter figure is adjusted to reflect a 3-for-1 stock split on September 14, 1956. The stock split had the effect of broadening the company's ownership base, with 1,000 new shareowners approximating the number of new jobs created during 1956.

Capital expenditures for new plant and equipment were in excess of $5,000,000 in 1956 and a record $8,000,000 has been budgeted for this year to complete a current expansion program. New plants under construction in Glendale, Wisconsin and Lexington, Kentucky, plus a small regional assembly unit in Atlanta, will add 400,000 sq. ft. to existing productive capacity.

Plans of the utility industry to more than double electric generating capacity in the decade ahead and of the construction industry to exceed the record levels of last year by 45% in 1966, as well as the continuing automation trend requiring electrical controls, were cited as long-range growth factors that should aid the company.

Net sales for the first quarter of 1957 were $25,122,681, net income $2,523,152, equal to 49¢ per share based on 5,113,011 shares. This compares with net sales of $23,343,660 and net income of $2,437,315 in the like quarter of 1956.

The current quarterly dividend is 25¢ per share.

Pittsburgh Consolidation Coal Co.

"Please advise on new developments in Pittsburgh Consolidation Coal Company and also report recent earnings, etc."

D. M., Burbank, Calif.

Pittsburgh Consolidation Coal Company has a good record in its field and its diversification program should become increasingly important.

Pittsburgh Consolidation Coal Co. reported 1956 net income before special credits of $21,972,169 or $2.39 per share on 9,195,993 shares outstanding at year end. These results include Pocohontas Fuel Co., Inc., which was acquired December 3rd, 1956, for the whole year.

Comparable 1955 figures for the two companies show net income of $17,659,231 or $1.98 per share on currently outstanding stock.

The company also realized in 1956 a special credit of $15,473,509 or $1.68 per share (after taxes) from the sale of major operating properties.

Capital expenditures in 1956 reached a record figure of $42,000,000 and year-end commitments cover projected capital outlays of $47,000,000. The company has attempted to replace coal reserves at least to the extent that they will be depleted by current production. Company's productive capacity is being increased because of expected growth in the use of energy, and present plants and mines are well-equipped. Last year showed a further continuation of the expanding demand for coal with gains centered primarily on use by the electric utility industry, up 11% over 1955, and exports abroad, up 41% over 1955.

Pocohontas Fuel Co. brings into Pittsburgh Consolidation, reserves and production facilities of low volatile coal in the Pocohontas Field of which Pittsburgh had none before. Modern practice almost universally utilizes both low and high volatile coal in coke oven blends.

For the three months to March 31st, 1957 net sales, etc., were $96,257,836, net income $6,291,452 equal to 68¢ per share based on 9,199,893 shares outstanding against first quarter 1956 net sales, etc., of $50,374,235, net income $3,295,699 and including Pocohontas Fuel Co., Inc., net income for that quarter was $5,151,225 equivalent to 58¢ per share based on 8,936,467 shares.

Current quarterly dividend is 30¢ per share. Prospects for coming months continue favorable.

—END

FOR PROFIT AND INCOME

Popular

On balance, mutual funds were substantial buyers of stocks in the first quarter. Reflecting their desire to put money to work but continuing cautious about risk taking, they gave first preference to utilities. Market performance to date indicates similar investment leanings by other institutional funds and many individual investors. But buyers are much more interested in profit-and-income than in income alone and hence are partial to growth utilities, as we long have been in the recommendations made here.

Comparison

The utility group recorded its 1956 high in August, its subsequent low at the start of October; and is now in new high ground. Measured only from lowest 1957 levels, seen mostly in early January, to highs since attained, here are the gains scored by some growth utilities: Florida Power 20%, Florida Power & Light 26%, Texas Utilities 27%, Middle South Utilities 20%, Central & South West 23%, Southwestern Public Service 23%. It averages out to about 23%, against some 8% for the Dow utility average on the same comparison; and about 8% for the Dow industrial average, measured from its February low. Readers who have followed our advices on growth utilities have fared well. These issues still have long-pull appeal—but appreciation cannot, of course, be expected to continue at anything like the pace maintained since last October and since the forepart of this year. It is a dynamic pace, whereas uptrends in earnings and dividends can only be fairly moderate. We are a good deal less enthusiastic about growth utilities right here than we were at earlier and considerably lower levels.

Groups

At this writing the following groups, aside from electric power and gas stocks, are performing better than the market: aircraft, coal, drugs, electrical equipments, liquor, machinery, office equipment, television-radio, food-store chains, shipping, soft drinks, sugar and tires. Among those currently performing worse than the market are steel, building materials, air lines, coppers, variety-store chains and textiles.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Greyhound Corp.	12 mos. Mar. 31	$1.29	$1.07
Gimbel Bros.	Year Jan. 31	3.60	3.16
Norwich Pharmacal Co.	Quar. Mar. 31	.81	.66
Otis Elevator Co.	Quar. Mar. 31	.73	.61
Seaboard Oil Co.	Quar. Mar. 31	.92	.73
Standard Brands, Inc.	Quar. Mar. 31	1.05	.87
Virginian Rwy.	Quar. Mar. 31	3.30	2.29
Aeroquip Corp.	Quar. Mar. 31	.73	.34
American Home Products	Quar. Mar. 31	2.46	1.86
General Baking Co.	13 Weeks Mar. 30	.23	.11

Depressed

For those willing to look ahead some distance and to be patient, it could well be that there are some better buys here and there in depressed stock groups than in presently popular groups. In the case of building, for example, the market has been digesting bad housing-activity news for months. Housing volume seems about as low as it is likely to go. The next significant change figures to be upward. It might start slowly before the end of this year, reflecting a probably increased supply of mortgage money and Government efforts to "perk things up." The birth rate is high, population growth relatively sharp, personal income at a record level, pressure for movement from cities to suburbs continuing—and there is no general over-supply of housing. The Census Bureau reports that in the first quarter the vacancy rate—percentage of all dwelling units vacant and available for rent or sale—was 2.3%, against 2.5% in the 1956 final quarter and 2.8% in last year's third quarter. The 2.3% vacancy rate breaks down to 1.8% for rent and only 0.5% for sale.

Selection

In this group, United States Gypsum is a top-flight company, dominant maker of gypsum-based building materials and a large maker of various other building materials. Features are good cost control, excellent operating margins, strong finances and continuous dividends since 1919. Over the past nine years, ratio of operating income to sales has varied only between 33% and 26.2%. Last year it was 31%. In the first quarter of this year, sales were off 14.9% from a year ago, profit down 15.2%, a much better showing than that of competitors. April sales were down only 11.8% from a year ago. Profit last year was a record $5.01 a share. First-quarter earnings were $1.01 a share, against $1.20 a year ago. At this distance, we would guess-estimate 1957 profit at somewhere between $4.25 and $4.75 a share. Dividends ($1.60 regular rate) should equal last year's $2.50 total. On this basis, the stock, which is of institutional grade, yields about 4.4% at a market level around 57, down from 1956 high of 77. A recovery half way to the latter level would mean an appreciation of about 17%, a full recovery 34%. It seems likely that the low point (52¼ in February) has been put behind. The issue may be slow for a time, possibly for some months, but it shapes up as a sound buy.

Coppers

The copper group is moderately above its February low, far down from the 1956 high. We do not have any conviction as to when a real turn will come. The "feeling" in the trade is that the present 32-cent domestic price either will hold or that temporary further paring of it would be unlikely to exceed one or two cents a pound. There is considerable opinion that a "normal" price ought to be around 33 to 35 cents a pound, taking longer-range supply-demand factors and costs into account. Some big African producers are moving toward fixed-price selling, as against taking whatever price prevails on the London open market. We could not press further selling of coppers here. Buyers might have to wait some time for profits, meanwhile getting yields much above average. Leading companies can make good money at present prices, even though much less than last year. Kennecott and Phelps Dodge are particularly well-heeled in cash and can afford to pay generous dividends. Need for hurry in buying is not apparent.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Chickasha Cotton Oil	9 mos. Mar. 31	$ .55	$1.21
Erie Railroad	Quar. Mar. 31	.51	.67
American Steel Foundries	6 mos. Mar. 31	2.74	3.39
Commercial Solvents Corp.	Quar. Mar. 31	.25	.34
Best Foods, Inc.	Quar. Mar. 31	1.01	1.24
Bohn Alum. & Brass	Quar. Mar. 31	.55	1.09
Spencer Chemical Co.	Quar. Mar. 31	1.41	1.97
American Snuff Co.	Quar. Mar. 31	1.16	1.35
Corning Glass Works	12 weeks Mar. 24	.57	.75
Diamond Match Co.	Quar. Mar. 31	.60	.71

Others

Rails, still far down in their 1956-1957 range, appear subject to further rally. We are not keen about the group for long range holding, but there are some sound values in it. Union Pacific, for example, at 30, down from 1956 high of 41, yields 5.3% on a $1.60 dividend basis, should earn at least as much this year as 1956's $3.39 a share, is strong in finances and has large non-rail income, especially from oil and gas operations . . . The air line stocks have made large allowance for profit shrinkage. We are not sure it is enough, would not do more selling here, but do not see adequate basis for buying . . . Paper stocks have had a large decline, but do not yet look inviting in view of excess capacity, with more of it being built . . . Farm equipments are semi-depressed, but we do not see basis for more than limited rallies . . . Metal fabricating issues remain well under earlier highs and could have sizeable recovery possibilities over a period of time . . . We remain "allergic" to most appliance-television stocks, most retail issues, rail equipments and textiles.

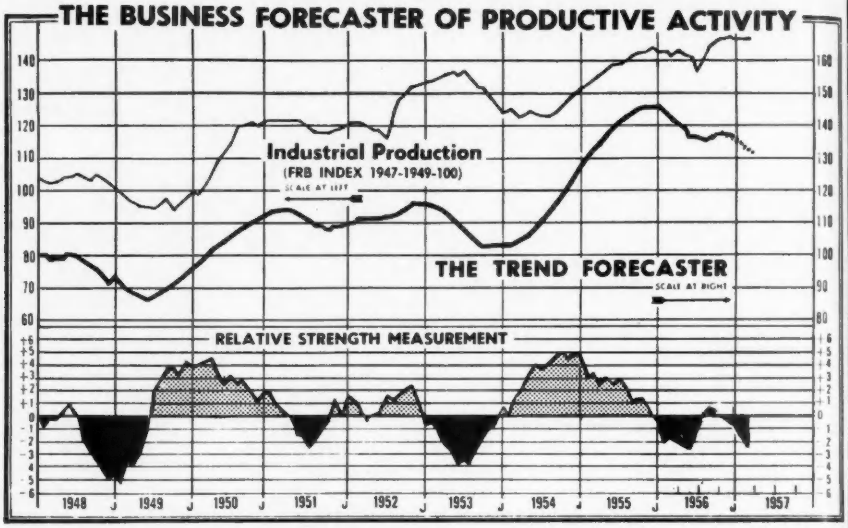
Pace Setters

Among industrials some "bull-market" stocks – meriting the term because they recently attained new 1956-1957 highs—are National Lead, McGraw-Hill, Gulf Oil, Air Reduction, American Cyanamid, Thompson Products, Minneapolis-Honeywell, Pfizer, Quaker Oats, and Sunbeam. Other better-than-average performers at this writing include Burroughs Corp., Beatrice Foods, Bendix Aviation, Caterpillar Tractor, Commercial Credit, Eastman Kodak, Flintkote, Goodyear, Hertz, McGraw-Edison, Motorola, National Cash Register, Pepsi-Cola, Schering, Seaboard Oil, and Sterling Drug.

Laggards

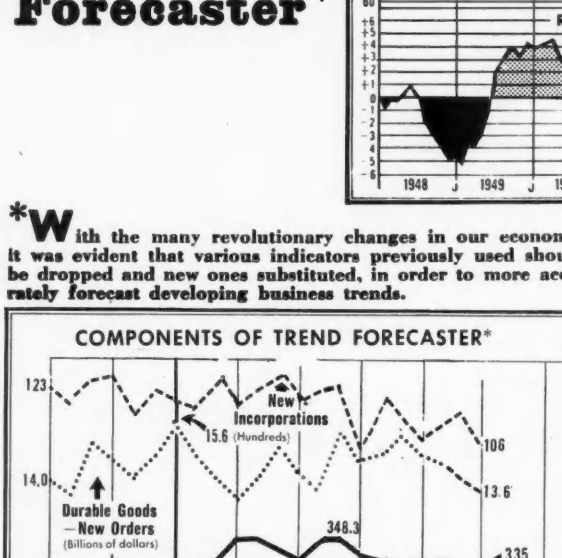
These issues are performing poorly: Butte Copper, Howard Stores, Murphy, Hudson Bay Mining, Industrial Rayon, Scovill Mfg., St. Regis Paper, Morrell, Rexall Drug, American Airlines, United Air Lines, Butler Bros., Chemway, Con Edison, Cudahy Packing, Motor Products, St. Joseph Lead, Sharon Steel, Ward Industries. —END

the Business



Business Trend Forecaster *

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



***—Seasonally adjusted except stock and commodity prices.**
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

At the end of the first quarter, the **Trend Forecaster** had been in a general decline almost continuously since late 1955, and the **Relative Strength Measurement** had fallen from plus five to about minus 2½.

During most of this period, the major weaknesses among the component series have been in business failures and housing starts, which have deteriorated persistently. In 1956, these weaknesses were joined by average hours worked and (with the exception of a brief interruption during the Suez crisis) by commodity prices. At mid-1956 the downtrend was joined by new incorporations. Since late in 1956, new orders in durables industries have been declining. This summarization makes the point that the descent of the **Relative Strength Measurement** has been rather broadly based.

In the second quarter of 1957, the component indicators are behaving with more stability than in the first quarter. Stock prices have strengthened, hours worked have turned up and commodity prices are not sinking as rapidly as in the early months of the year.

The **Relative Strength Measure** appears to have stabilized for the time being in the minus 2 area, which signifies rolling readjustment rather than serious recession. Direction of the movement out of this range will furnish the clue to the next important change in general business.

Analyst

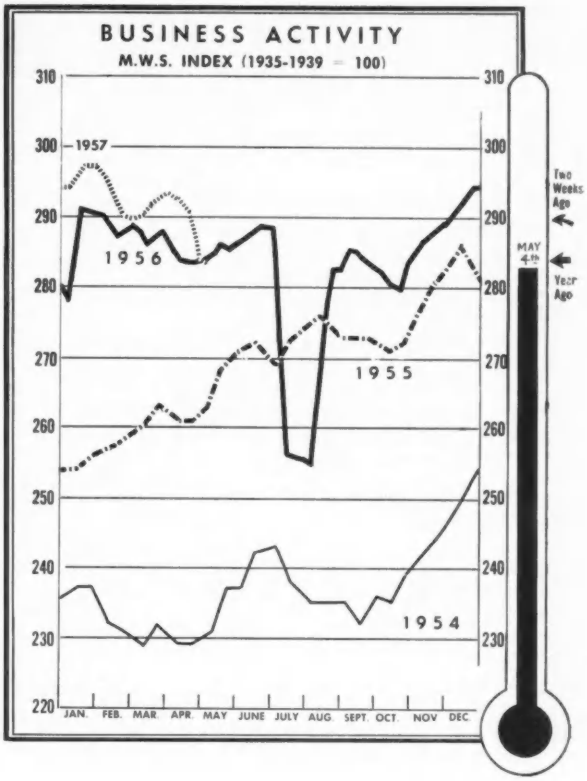
CONCLUSIONS IN BRIEF

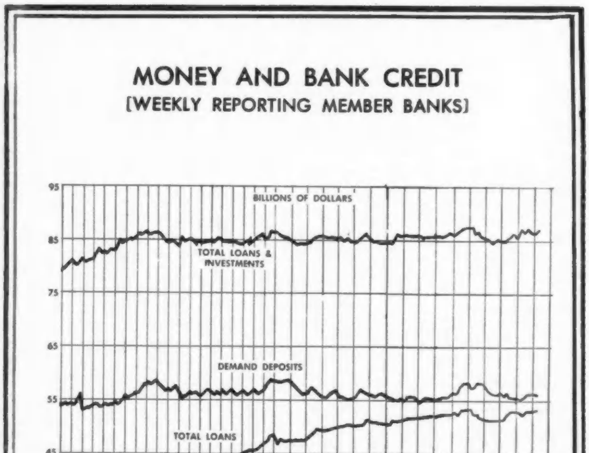
INDUSTRY — Production drifting down slowly, reflecting slack demand for autos, industrial raw materials, and some appliance and machinery lines. Soft goods output still firm. Employment falling a little each month. Outlook: further downdrift in second quarter.

TRADE — Retail sales still about stable in dollar terms, and above a year ago. In real terms (after adjustment for rising prices) sales are slightly lower than in the fourth quarter, and only about equal to a year ago. Outlook: no change in second quarter, except for possible further weakening in autos.

MONEY AND CREDIT — Slight further easing detected in certain money markets, but not yet general. Federal Reserve still restricting supply, despite urgent need for funds to roll over government debt. Interest rates not rising, but still firm at their 1956 peaks.

COMMODITIES — Raw materials continue generally weak, with exception of steel scrap, which has recently begun to strengthen. Notable weakness in nonferrous metals, reflecting reduced stockpile demand and swollen world supply. Copper price still in trouble. Slight further decline in general industrial commodities probable in next two months.





The forecasting fraternity is now heavily engaged in work on the fourth quarter of 1957, with a view to establishing whether the much debated possible uptrend in that quarter is a good, indifferent or bad bet.

Underlying this research is one basic question: is today's slow, sluggish downdrift building a base for a new advance, fast enough to complete the job by Fall? The answer to this question lies in what's happening to inventory; what's happening to consumer debt on automobiles and other consumer durables; what's happening to housing; and what, above all, is happening to business sentiment and investor sentiment.

For midway in the second quarter, the **sentiment of businessmen seems to be much better than the facts would appear to warrant.** At the same time that production rates are slipping, spokesmen for industry are happily forecasting a new surge of business. In the machine tool industry, to name just one, new orders are running fully 30% below the current rate of shipments; yet executives in the industry continue to forecast excellent business throughout the year. Because of this prevailing optimism, which is reflected in poll after poll, capital spending plans continue to be exuberantly high, even in industries where requirements for further capacity are clearly called into question by idle capacity today.

The fourth-quarter upturn and current optimism are, of course, closely related. If business and investors remain optimistic throughout the second and third quarters of the year, the possibiilties of a sudden surge of business in the fourth quarter would doubtless be improved. Similarly, the rising trend of the stock market over the past several weeks is once again *(Please turn to following page)*

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	146	146	141
Durable Goods Mfr.	1947-'9-100	Mar.	163	164	157
Nondurable Goods Mfr.	1947-'9-100	Mar.	131	131	128
Mining	1947-'9-100	Mar.	135	131	129
RETAIL SALES*	$ Billions	Apr.	16.3	16.3	15.5
Durable Goods	$ Billions	Apr.	5.6	5.7	5.3
Nondurable Goods	$ Billions	Apr.	10.6	10.6	10.2
Dep't Store Sales	1947-'9-100	Apr.	122	127	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Feb.	28.3	28.8	27.6
Durable Goods	$ Billions	Feb.	13.9	14.3	14.1
Nondurable Goods	$ Billions	Feb.	14.3	14.5	13.5
Shipments*	$ Billions	Feb.	29.2	29.2	27.2
Durable Goods	$ Billions	Feb.	14.7	14.7	13.6
Nondurable Goods	$ Billions	Feb.	14.5	14.5	13.6
BUSINESS INVENTORIES, END MO.*	$ Billions	Mar.	89.0	88.9	83.8
Manufacturers'	$ Billions	Mar.	52.2	51.9	47.4
Wholesalers'	$ Billions	Mar.	13.1	13.1	12.6
Retailers'	$ Billions	Mar.	23.7	23.9	23.9
Dept. Store Stocks	1947-'9-100	Feb.	140	141	138
CONSTRUCTION, TOTAL	$ Billions	Mar.	3.2	2.9	3.1
Private	$ Billions	Mar.	2.3	2.1	2.3
Residential	$ Billions	Mar.	1.0	0.9	1.1
All Other	$ Billions	Mar.	1.3	1.2	1.2
Housing Starts*—a	Thousands	Mar.	880	910	1,100
Contract Awards, Residential—b	$ Millions	Mar.	1,107	875	1,186
All Other—b	$ Millions	Mar.	1,971	1,286	1,584
EMPLOYMENT					
Total Civilian	Millions	Mar.	63.9	63.2	62.6
Non-Farm	Millions	Mar.	51.3	51.2	50.5
Government	Millions	Mar.	7.4	7.3	7.1
Trade	Millions	Mar.	11.1	11.1	10.9
Factory	Millions	Mar.	13.0	13.1	13.1
Hours Worked	Hours	Mar.	40.0	40.2	40.4
Hourly Earnings	Dollars	Mar.	2.05	2.05	1.95
Weekly Earnings	Dollars	Mar.	82.00	82.41	78.78
PERSONAL INCOME*	$ Billions	Mar.	337.6	336.6	318.6
Wages & Salaries	$ Billions	Mar.	234	234	220
Proprietors' Incomes	$ Billions	Mar.	52	52	50
Interest & Dividends	$ Billions	Mar.	31	31	29
Transfer Payments	$ Billions	Mar.	20	20	19
Farm Income	$ Billions	Mar.	15	15	15
CONSUMER PRICES	1947-'9-100	Mar.	118.9	118.7	114.7
Food	1947-'9-100	Mar.	113.2	113.6	109.0
Clothing	1947-'9-100	Mar.	106.8	106.1	104.8
Housing	1947-'9-100	Mar.	124.9	124.5	120.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Mar.	106.2	106.6	105.6
Bank Debits*—g	$ Billions	Mar.	77.4	80.3	73.9
Business Loans Outstanding—c	$ Billions	Mar.	31.4	31.6	27.8
Instalment Credit Extended*	$ Billions	Mar.	3.3	3.5	3.2
Instalment Credit Repaid*	$ Billions	Mar.	3.2	3.2	2.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Mar.	10.7	6.2	11.3
Budget Expenditures	$ Billions	Mar.	5.6	5.7	5.4
Defense Expenditures	$ Billions	Mar.	3.8	3.5	3.2
Surplus (Def) cum from 7/1	$ Billions	Mar.	5.1	(0.5)	5.9

PRESENT POSITION AND OUTLOOK

distributing realized or unrealized capital gains to the consumer sector, and thereby assisting the embattled consumer industries to overcome the weakness in their markets.

The moral of this is that business psychology is more than just a reflection of business. Frequently it can cause a change in activity itself. The real question about late 1957 is whether the statistics will rise to align themselves with business sentiment, or whether sentiment will fall to align itself with the statistics. At the moment, the gap is wide and significant.

* * *

FEDERAL SPENDING—it spurted earlier this year, but the month-to-month gain has slowed perceptibly in recent months, perhaps reflecting the obvious sentiments of Congress and the nation.

For a spell in the first quarter, it looked as though defense spending was going to go through the roof by mid-year. However, in recent weeks it has dropped sharply, to well below the levels of late 1956 and early 1957. The higher rates of spending earlier in the year were obviously casting doubt on a balanced budget for fiscal 1957, which ends in six weeks; and the new conservatism may well disappear after the final fiscal accounting on June 30. But at least a firm hold has been taken on defense outlays in the second quarter.

* * *

THE MONEY SUPPLY—hot center of the issue over Federal Reserve policy, it has drifted sideways for a year and a half. As it is often defined, money supply includes currency, demand bank deposits, and time (savings) deposits. So defined, the total is now up about $6 billion over a year ago. But all of the increase is in time deposits; the so-called "active money supply", which is usually defined to include only currency and demand deposits, is virtually unchanged.

Over the past year, the "velocity" of money supply—that is, the rate at which it has been used—has continued its long uptrend of the postwar years, and is now about as high as at any time since the 1920's.

Another sidelight on the money supply issue: the ratio of money supply to national output is now lower than at any time since 1931. Both of these arguments—the present high velocity of money, and the low

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 I Quarter	1956 IV Quarter	1956 III Quarter	1956 I Quarter
GROSS NATIONAL PRODUCT	427.0(e)	423.8	413.8	403.4
Personal Consumption	275.0(e)	270.9	266.8	261.7
Private Domestic Invest.	64.5(e)	68.5	65.1	63.1
Net Foreign Investment	3.0(e)	2.4	1.7	0.1
Government Purchases	84.5(e)	82.0	80.2	78.7
Federal	49.5(e)	48.3	47.2	46.1
State & Local	35.0(e)	33.7	33.0	32.6
PERSONAL INCOME	336.5(e)	333.2	327.0	317.5
Tax & Nontax Payments	41.0(e)	39.9	38.8	37.3
Disposable Income	295.5(e)	293.3	288.2	280.2
Consumption Expenditures	275.0(e)	270.9	266.8	261.7
Personal Saving—d	20.5(e)	22.4	21.4	18.5
CORPORATE PRE-TAX PROFITS*	na	45.8	41.2	43.7
Corporate Taxes	na	23.1	20.8	22.1
Corporate Net Profit	na	22.7	20.4	21.6
Dividend Payments	na	11.9	12.3	11.8
Retained Earnings	na	10.8	8.1	9.8
PLANT & EQUIPMENT OUTLAYS	36.9(e)	36.5	35.9	32.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	May 4	283.3	283.9	284.1
MWS Index—per capita*	1935-'9-100	May 4	216.2	216.7	220.4
Steel Production	% of Capacity	May 11	87.5	87.0	95.2
Auto and Truck Production	Thousands	May 11	161	156	142
Paperboard Production	Thousand Tons	May 4	272	249	289
Lumber Production	Thous. Board Ft.	May 4	257	253	247
Electric Power Output*	1947-'49-100	May 4	224.2	223.5	215.0
Freight Carloadings	Thousand Cars	May 4	719	691	771
Engineering Constr. Awards	$ Millions	May 9	385	476	558
Department Store Sales	1947-'9-100	May 4	134	123	125
Demand Deposits—c	$ Billions	May 1	56.2	56.7	55.9
Business Failures	Number	May 2	297	263	277

PRESENT POSITION AND OUTLOOK

supply relative to national output—are now being used by advocates of a substantially easier Federal Reserve policy.

* * *

THE PRICE LEVEL—it is now adrift, without any direction. **The broad upheaval of prices that started in mid-year 1955 has evidently run its course at the wholesale level, and is almost (but not quite) over at the retail level.** In fact, most major price groups which comprise the Bureau of Labor Statistics' wholesale price index are showing considerable stability, and in the past few months more have declined than have advanced.

At retail, the price level continues to edge up, but mainly as a result of rising prices for such services as medical and dental treatment, utilities prices, purchased transportation, and personal services such as laundry, dry cleaning, etc. Retail food prices rose a little in the early months of the year, owing partly to seasonal influences, but their present trend is sideways; apparel prices, after climbing in late 1956, are now without a trend. Given half a chance, the cost of living would certainly tend to stabilize in the next few months; but of course rising wages are still adding a little fuel to production costs, and hence living costs.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 48 states. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 May 3	1957 May 10
300 Combined Average	344.2	322.3	339.4	342.3
4 Agricultural Implements	282.4	257.9	274.2	271.5
3 Air Cond. ('53 Cl.—100)	122.8	110.2	120.5	122.8H
9 Aircraft ('27 Cl.—100)	1388.8	1210.0	1224.2	1281.2
7 Airlines ('27 Cl.—100)	1002.5	782.0	812.0	792.0
4 Aluminum ('53 Cl.—100)	443.4	375.8	435.0	443.4H
6 Amusements	172.6	151.8	168.1	172.6H
9 Automobile Accessories	384.4	341.7	380.8	384.4H
6 Automobiles	52.8	47.6	51.4	51.9
4 Baking ('26 Cl.—100)	28.9	26.3	28.4	28.9H
3 Business Machines	1172.1	956.2	1110.5	1172.1H
6 Chemicals	610.4	556.5	610.4	604.4
4 Coal Mining	25.1	22.8	23.5	23.2
4 Communications	104.1	94.5	102.2	104.1H
9 Construction	126.8	118.1	119.3	123.1
7 Containers	784.8	739.5	784.8	784.8
7 Copper Mining	307.6	258.9	277.2	268.0
2 Dairy Products	111.3	103.8	109.1	110.2
6 Department Stores	87.6	80.1	87.6	87.6
5 Drugs-Eth. ('53 Cl.—100)	217.2	175.2	215.4	217.2H
6 Elec. Eqp. ('53 Cl.—100)	233.1	215.0	226.3	233.1H
2 Finance Companies	579.1	525.0	573.7	579.1
6 Food Brands	277.5	264.0	277.5	274.8
3 Food Stores	172.2	153.8	168.9	168.9

(Nov. 14, 1936 Cl.—100)	High	Low	1957 May 3	1957 May 10
100 High Priced Stocks	231.4	215.6	229.4	230.9
100 Low Priced Stocks	415.8	387.6	400.9	405.2
4 Gold Mining	719.6	627.2	653.6	680.0
4 Investment Trusts	173.1	166.7	169.9	171.5
3 Liquor ('27 Cl.—100)	1064.7	965.2	1054.7	1064.7H
9 Machinery	523.4	477.2	508.0	513.1
3 Mail Order	174.6	162.6	164.4	169.5
4 Meat Packing	142.6	121.6	124.4	121.6L
5 Metal Fabr. ('53 Cl.—100)	190.7	175.4	188.8	186.9
10 Metals, Miscellaneous	420.9	384.5	400.7	508.7
4 Paper	1060.1	904.2	925.0	925.0
22 Petroleum	881.5	749.7	856.8	881.5H
21 Public Utilities	261.2	251.3	261.2	261.2
7 Railroad Equipment	91.4	82.7	87.9	87.9
20 Railroads	72.7	65.7	67.1	67.8
3 Soft Drinks	509.8	445.5	501.2	509.8H
12 Steel & Iron	393.0	330.1	349.8	345.8
4 Sugar	115.0	97.9	115.0	112.1
2 Sulphur	916.3	815.4	882.6	882.6
11 Television ('27 Cl.—100)	35.6	31.6	34.3	35.6
5 Textiles	149.9	124.7	130.3	130.3
3 Tires & Rubber	186.4	164.0	180.8	184.5
5 Tobacco	91.3	87.0	90.4	89.6
2 Variety Stores	273.7	258.2	268.5	268.5
15 Unclassif'd ('49 Cl.—100)	167.4	153.8	164.4	167.4

H—New High for 1957. L—New Low for 1957.

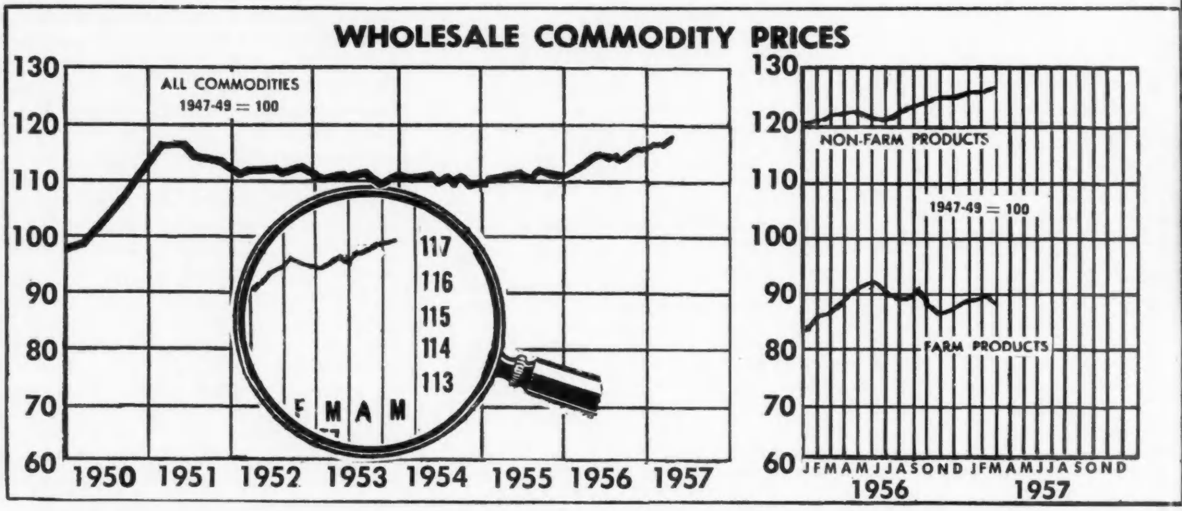
Trend of Commodities

SPOT MARKETS—The persistent decline in sensitive commodity prices continued in the two weeks ending May 13. The Bureau of Labor Statistics' index of 22 leading commodities fell an additional 0.6%, closing at a new low since July, 1956. Impetus for the decline derived from weakness in metals with this component falling a sizeable 4.4%. In this sector, lead and zinc prices tumbled sharply after a long period of stability. The index of raw materials declined 1.2% during the period, reflecting the weakness in metals as well as lower prices for such things as rubber, rosin and wool tops.

The prolonged decline in sensitive commodities, now in its sixth month, is in striking contrast to the continued talk of inflation. Certainly, in its effect on business, this drop may have widespread deflationary results.

FUTURES MARKETS—Futures prices were mixed in the two weeks ending May 13, although declines outnumbered advances. The Dow-Jones Commodity Futures Index was off an inconsequential 0.28 points but reached a new low for the year before stabilizing. Wheat prices drifted lower during the period and the September option lost 1¼ cents to close at 211¼.

Wheat has enjoyed a steady improvement in crop prospects reflected in the Agriculture Department's forecast of a 703,208,000 bushel winter wheat crop. This was 34,128,000 bushels higher than the estimate of a month ago and raised the possibility that the total winter and spring wheat crop would top 900 million bushels. A harvest of that size would cover all consumption needs, leaving untouched the 962 million bushels of surplus wheat in storage from previous years.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	May 7	117.2	117.3	114.4	60.2
Farm Products	May 7	90.3	90.7	90.9	51.0
Non-Farm Products	May 7	125.3	125.4	121.7	67.0
22 Basic Commodities	May 13	87.7	88.2	91.0	53.0
9 Foods	May 13	81.5	81.2	83.0	46.5
13 Raw Ind'l. Materials	May 13	92.2	93.3	96.8	58.3
5 Metals	May 13	103.0	107.9	122.2	54.6
4 Textiles	May 13	84.0	84.1	79.7	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

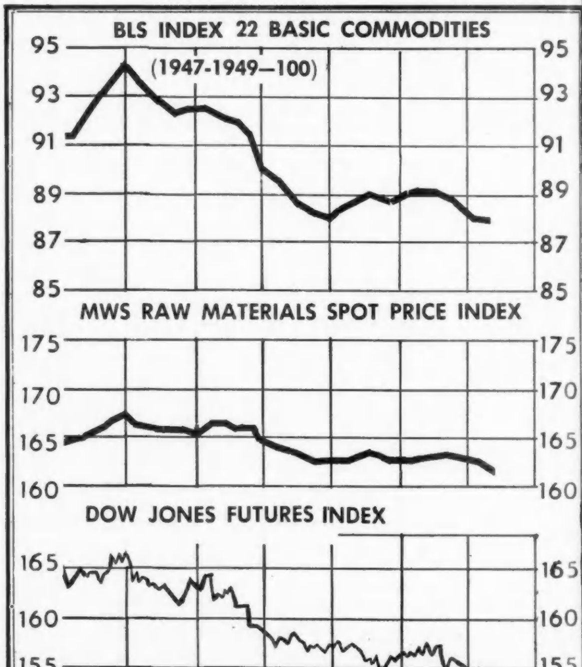
	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	161.3	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

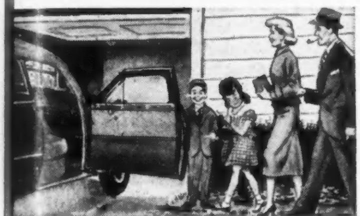
	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	154.5	149.8	153.8	174.8	93.9	55.5
Close of Year		162.7	166.8	189.4	105.9	84.1



Just write to research...

he letter was dated February 26th, but was probably mailed at night because e post office cancellation read a day ter. It came from a tiny Massachusetts wn in the foothills of the Berkshires, rrived in our mailroom the morning of e 28th, and by 10 A.M. was on its way o our Research Department.

The letter came from a Highway epartment engineer, a man in his early rties, who was married and had two mall children. While his salary wasn't



nunificent, he said he and his wife had earned to live on it comfortably, so here wasn't too much temptation to hange their standard of living when hey came into a tidy inheritance over a ear ago. The inheritance was in the form f stocks, bonds, and cash, and he ttached a list, saying that neither he or his wife knew much about securities nd they would appreciate our advice nd guidance.

An acknowledgment went off that ame day, letting the engineer know that is letter would receive "thoughtful, ndividual consideration"—the kind of tudy that takes a little time.

Here's what happened then.

First, the letter went to a statistical nit in the Research Department where he engineer's holdings were itemized to how cash on hand, the amount and eries of Government bonds, and the umber of shares, prices, yields, and pproximate value of sixteen common tocks, classified by industry.

Next, a two-page summary of this reakdown and the original letter went o John W. Anaya, the manager of Merrill Lynch's Correspondence Department. He read them with care to decide which portfolio analyst seemed best qualified to handle this request for help. His choice was Peter McCourt—a man round fifty who has spent his entire usiness career in stocks and bonds and who at one time or another has held own almost any job you can name in he brokerage business.

This is how McCourt went about his analysis of the engineer's problem. First, he spent twenty-five minutes reading the letter and the itemized breakdown, making notes and checking references in different manuals that are the tools of his trade.

The situation began to come into focus when he fastened on the engineer's investment objectives—safety of principal rather than high dividends right now, college for his children, and eventually a comfortable retirement for himself and his wife. This whole attitude was underscored by the engineer's statement that he had "an inherent dislike of gambling."

The whole portfolio, McCourt observed, was essentially conservative. Only two-thirds of the total assets were invested in common stock, and most of these were of high-grade investment calibre.

At this point, the possibility occurred to McCourt that some portion of the cash available—even some of invested funds—might be transferred to securities showing better potentials for long-term growth.

But he postponed that decision for a review of each stock in the portfolio, company by company.

He noted first that nearly 10% of the engineer's total assets were invested in 160 shares of one of the biggest companies in the electrical equipment field.

That seemed a fairly heavy commitment, particularly since the Merrill Lynch specialist in the electrical industry had covered this company in a talk to the staff only the day before, and he had mentioned that this stock was probably fully valued at present prices. So even though the long-term outlook might still be reasonably attractive, McCourt felt that the engineer should consider selling the 60-odd shares and reduce his holdings here to an even hundred.

Next on the list came a leading company in the heavy machinery industry. This stock, an even 100 shares, also accounted for about 10% of the portfolio. McCourt knew that it was included in Merrill Lynch's Selected Issues list, having been picked as one of the 50 or 60 most attractive stocks for immediate purchase. The earnings outlook for the industry and the company both looked particularly favorable, and McCourt could see no reason to sell any of this stock and wind up with an odd-lot holding.

The third stock on the list he checked in our Security and Industry Survey which covers every major industry and some four or five hundred individual stocks. Here McCourt found that the outlook for the industry was classified as relatively unfavorable, although no rating was provided for the stock in question.

So McCourt called the specialist in that field who said that he thought the price of the stock had already taken account of the unfavorable outlook and that consequently there should be opportunities to sell at a better price later on.

So it went through all 16 stocks in the engineer's portfolio.

When he finished his analysis, McCourt dictated a comprehensive reply suggesting that the engineer sell 60 shares of one stock and 50 of another, that he use the proceeds—plus $9,000 cash—to buy five other stocks with excellent potentials for long-range growth.

He enclosed the latest Merrill Lynch report on each of these stocks, included

our basic guidebook "How to Invest", and—rather hopefully—"To Our Customers", a simple leaflet introducing some of our services.

Because the engineer wasn't a customer—and might never become one.

He merely took advantage of our standing offer to help any investor—

> With facts about particular stocks...
> With a thorough review of his complete portfolio . . .
> With an intelligent investment program to meet his own personal objectives.

There's never any charge, never an obligation. As we said, you just write to Research. Simply address—

Frank V. Deegan, *Department SF-17*

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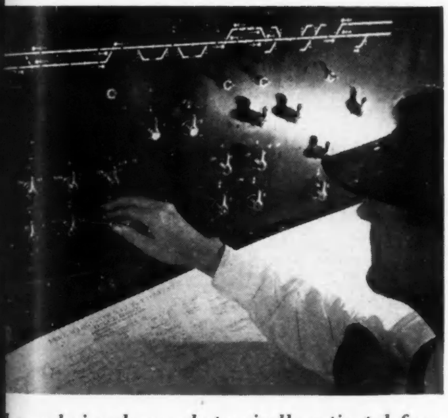
ewhere on Chesapeake and Ohio's 5,100 system a waybill is made out, a car passes ction point, a passenger buys a ticket, a anic requisitions a dozen bolts from a room, a brakeman works an hour over- an investor buys a hundred shares of sie common.

he million, such bits of information are ed to data processing centers where they ranslated into the language of tape and h cards. Machines quickly classify, digest nalyze this information. Thus, up-to-the-



es and signals are electronically activated from ntrol board, resulting in increased utilization of dway equipment for better service. C&O has over miles of Centralized Traffic Control trackage.

minute reports on any phase of C&O operations are always available as a guide to management decisions.

Electronics speed up Chesapeake and Ohio service in many ways. Closed circuit television gives the yardmaster a close-up view of what is going on at the other end of the yard. Radio and loudspeakers give him efficient control of the entire operation.

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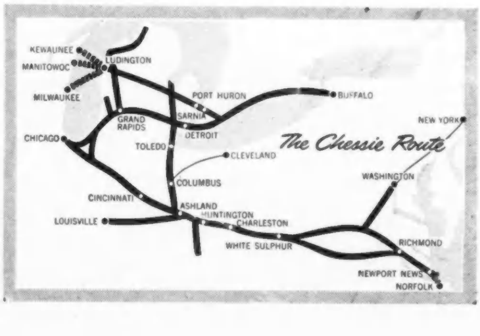

U. S. Between Devil and Deep Sea on Surpluses

(*Continued from page* 287)

United States theoretically uses these currencies abroad in its assistance operations, although quite a few barrels of this stuff seem to have accumulated in Washington. The foreign governments buy here through private trade at going prices. But, some of the markets—such as the vegetable oil markets — have been in constant turmoil over whether and when Washington would announce that deals had been made. In dealing with foreign governments rather than private importers abroad, some exporters of long standing have been left out in the cold.

It was inevitable, when the United States first began to support farm products prices at artificially high levels, that our Government would take over increasingly the marketing functions of private business. No real reversal of this trend can be expected until the policy of high supports, with resultant piling up of surplus stocks in government hands, is abandoned.

Dumping No Solution To Problem

There is substantial belief here in the United States, particularly among those who are more nationally than internationally inclined, that maintenance of high price supports and continuous dumping abroad of the consequent inevitable surpluses of farm products—at whatever price they will bring—is the real solution to the farm "problem," the way by which we can have our cake and eat it, too.

However, dumping is not a one-way street. Many of the advocates of a two-price system for farm products, which in effect is nothing more than export dumping, are among the first to complain of "competition from imports," even though the products involved —such as cheeses, to use a good example—do not compete directly to any great extent with American-made products.

When our surpluses are turned loose on the world markets, the inevitable result is to depress t prices of foreign-produced co modities. Since early this ye for instance, prices of non-Am ican cottons in the Liverpool c ton market have declined by se eral cents per pound as a res of our cut-price cotton exp sales programs.

There is no good reason, course, why the United Sta should hold an umbrella over f mers abroad. However, after ha ing done so for a number of ye and after having encouraged creases in agricultural producti abroad under Point Four pr grams, it does not make mu sense to suddenly go into reve and adopt courses of action th result in sharply depressing pr returns to foreign farmers.

We run the risk of alienati our friends, turning many them towards the Commun camp, and touching off a wor wide commodity price deflati With prices on inflationary st and with the economies n geared to the inflated price str tures, deflation could have f reaching and very serious im cations.

Actually, we may be helping
ıe Communists far more than we
alize right now. In some com-
odity circles, for instance, it is
lieved that a portion of our cut-
rice cotton exports may be find-
g their way, through transship-
ent, into Iron Curtain countries.
The fact of the matter is that
e cannot press our surpluses of
rm products on world markets
ithout hurting both ourselves
nd others. If we force our wheat
to the world market, our Cana-
ian friends find a portion of their
xport market cut off and conse-
uently are able to buy less man-
factured goods of various kinds
om us.

Directly or indirectly, many of
ur own manufacturers are ad-
ersely affected by our dumping
f farm products on world mar-
ets. Foreign manufacturers,
rough the availability of lower-
riced raw materials, are able to
t into our export markets for
anufactured goods and, in some
ases, undercut our manufactur-
s in our own domestic markets.

The ability of Japanese cotton
xtile manufacturers to under-
ll our own manufacturers in our
wn domestic markets has been
ue in considerable measure to
e favorable terms under which
apan has been able to obtain cot-
n here. —END

Re-appraising the Aircrafts Under the Revised Defense Program

(*Contined from page* 291)

f the facilities used by the in-
ustry. The Government now is
uggesting that the industry fi-
ance a much larger share of
unds required for plants and
quipment. Research activities are
lso growing more costly. Hence,
n some cases, the reported earn-
ngs are not showing as large
n increase as the gain in sales
ould seems to indicate.

Curtiss-Wright, which showed
n excellent gain in earnings last
ear, is forecasting another rise
n net this year, largely on the
trength of the rise in its com-
ercial business to a point where
9 per cent of earnings were de-
ived from this field. C-W sub-
idiaries offer a wide degree of
iversification outside of aviation.

(*Please turn to page* 314)

Re-appraising the Aircrafts Under the Revised Defense Program

(*Continued from page* 313)

This includes continued good production of reciprocating aircraft engines for the Douglas DC-7 and Lockheed Constellation commercial planes; a management contract with Studebaker-Packard, which may ultimately result in handsome profits, under an option to purchase 5 million shares of S-P stock at $5 a share. As a defense producer, C-W has lost ground to United Aircraft, but it may offset that by its ability to place S-P on a profit-making basis, thus utilizing S-P loss carry forwards after exercising the stock option which would give it control of the auto company.

Among the air frame producers, **Boeing** has the largest backlog – $2.848 billion as of March 31. The company expects earnings this year to exceed the 1956 level of $4.82 a share. First quarter earnings were $1.21 a share, against 92 cents in the same period of 1956. Sales showed an even larger rise–from $170 million to $292 million, and this pattern is expected to continue for the rest of the year. About $660 million of the backlog, or 23 per cent of the total, is represented by orders for the Boeing 707 commercial jet. In this commercial field the company has taken a strong position. Total sales will be well above last year's $1 billion, in spite of recent cutbacks on the B-52 bomber.

Douglas, which also passed the $1 billion mark in sales last year, is looking for earnings in each of the three last quarters of its fiscal year to exceed the $2.37 a share earned in the February quarter. The company's backlog of $2.176 billion was unusual in that it was divided almost evenly between military and commercial business. Profits from increased deliveries of DC-6 and DC-7 planes are expected to offset by a substantial margin the experimental charges on the DC-8 commercial jet. Douglas' missile sales last year totaled $140 million.

Northrop Aircraft's earnings for the fiscal year ending next July 31 should equal or exceed the $3.28 a share shown for the last fiscal year. Sizable orders are e[x]pected for the Snark guided m[is]sile.

Lockheed, which is backing t[he] prop-jet Electra plane, rath[er] than straight jet propulsion, [in] its commercial jet ventu[re] showed a dip in net in the fi[rst] quarter, as a result of heavy d[e]velopment costs on this proje[ct]. Net was $1.16 a share, again[st] $1.51 in the same period of la[st] year, despite an increase in sal[es]. The company will deliver $2[..] million of commercial liners th[is] year – Constellations – and th[is] should absorb a good deal of t[he] Electra development costs. T[he] backlog was $1.533 billion [on] March 31 last, an increase of [..] per cent. The company's miss[ile] systems division had sales of $[..] million in the first quarter, a ga[in] of 40 per cent.

North American's sales rose la[st] year, and will show another ga[in] this year. But heavy research a[nd] development costs are holdi[ng] earnings down. In the first qua[r]ter, net failed to show the ga[in] that was exhibited by sales, whi[ch] rose from $215 million a year a[go] to $312.6 million in the first qua[r]ter of this year.

General Dynamics showed [a] sharp gain in net profit in t[he] first quarter. With a backlog [of] $2.2 billion, well diversified [in] various fields of defense work, t[he] company is heading for a reco[rd] breaking year.

Outlook Tied to International Tension

Aircraft production sales a[nd] earnings at the moment are mo[v]ing upward, largely because [of] the dominant role which aircra[ft] and missiles play in the defense [of] the nation. The ratio of the bu[d]get dollar that is taken up by ai[r]craft has risen enormously, a[nd] will probably stay at a high lev[el].

But this does not alter the ge[n]eral conclusion that investmen[ts] in aircraft companies are spec[u]lative, largely because of their d[e]pendence on a continuation of t[he] "cold war." Russia currently [is] staging a peace offensive. We a[re] staging our own campaign to w[in] the satellite countries to our sid[e]. If either of these moves gai[ns] ground, defense appropriatio[ns] may be reduced.

The defense equipment cu[r]rently being produced, with t[he] exception of cargo and personn[el]

rriers, and helicopters, will not ave any commercial applications.

If the cold war continues for a ng time, earnings could rise mewhat for those companies at are alert technologically, hile commercial volume should ntinue to show steady growth. ut if a major peace offensive is unched by Russia, the aircraft ocks could give up some of the round which they have gained cently. —END

Lowered Ceiling on Airline Profits

(*Continued from page* 294)

almost 20 billion. This total oes not include a number of mall feeder lines as well as conderable volume of business handled by non-certificated carriers.

If it were not for possible hanicaps imposed by government egulation, the airlines could look rward with a greater degree of nfidence to problems likely to be nfronted in the next few years. olitical appointees charged with e responsibility of managing afirs of industries serving the ublic usually show greatest conrn over holding down fees paid the traveling or consuming ublic—presumably on the theory at an economical service is less kely to rouse criticism. Few comissions have developed forward oking plans destined to foster rogress of service industries.

Whether or not the Civil Aeroautics Board comes forward with ssistance for the airlines at this itical period remains to be seen. seems evident, however, that ermission to adopt higher fares essential to maintain safe and tisfactory service at a profit and essential to enable the carriers bolster their credit standing so at needed equipment may be acuired on the best possible terms. nless better earning power can e shown in 1958 than is now procted, major carriers may enunter difficulties in borrowing e needed funds to supplement tained earnings and depreciaon reserves.

rend of Costs and Profit Margins Causes Concern

To understand the industry's ncern over the outlook for the xt year or two one should observe more closely the trend of costs and profit margins. Figures for 1956 suggest, for example, that emphasis on aircoach travel and competition in granting additional services resulted in a substantial decline in net operating income in spite of the encouraging gain in passenger travel.

Gross revenues rose only about 11 per cent to about $1,300 million for the year because of the lower fares generated by aircoach passengers. Net operating income declined about 18 per cent to $101 million in reflecting higher wage scales and increased costs of fuel and other necessary supplies. Indicative of the downtrend was the dip in net income reported bv trunk lines to only 4½ per cent of gross revenues, a figure lower than that reported by the leading operator of transcontinental busses.

The restrictive effect of rising wages has been more readily absorbed in previous years when travel gains were relatively sharper and the impact was greater on first class service than on the less remunerative aircoach flights. Keener competition manifested itself last year also as a result of extensive awards of new routes by the CAB in late 1955. Partly as a result of keener competition from smaller systems which had been authorized to introduce new services and partly as a result of expansion of travel on non-scheduled trans-continental carriers, the major companies put into effect cut rates on aircoach flights between New York and California. Doubtlessly this move contributed to gains in passenger-miles flown, but reduced profit margins considerably.

With costs continuing to mount, it seems certain that operating results are due to register unfavorable trends this year. In connection with applications for rate relief, several trunkline managements have submitted earnings projections for this year and next. American Airlines estimated that without any increase in fares in the meantime, 1958 operations would show a deficit equal to 68 cents a share. This would compare with net income equal to $2.44 a share for 1956 and $2.44 for 1955. In like manner, United Air Lines management forsees net income equivalent to only $1.58 a share for next year unless higher fares are granted. Such

(*Please turn to page* 316)

Lowered Ceiling on Airline Profits

(*Continued from page* 315)

a showing would compare with $3.22 for last year, not taking into account $1.35 a share in capital gains, and $3.35 a share for 1955, based on shares outstanding at the year-end. The projection by TWA expects a loss for the year 1958. This carrier estimates that without any fare relief by next year a deficit of 49 cents a share can be foreseen. This would compare with last year's loss equal to 70 cents a share, which included abnormal costs.

Were it not for longer range uncertainties, the investing public probably would feel inclined to adopt a more hopeful attitude toward the airlines industry. In spite of the prospect for narrowing margins over the remainder of the year, traffic is expected to register encouraging gains. Air travel usually is influenced in no small measure by general business conditions, and a relatively high rate of industrial activity is anticipated this year. Increased railroad fares seem likely to exert a strong influence on air travel this year, since over distances where the two services compete airlines fares generally are lower than rail charges, taking into account pullman and other expenses.

Additional equipment being installed this year should contribute to larger traffic volume. A lower accident incidence may prove another favorable factor. Disasters such as experienced a few years ago that induced widespread cancellations are becoming less and less frequent as a result of steady progress in scientific techniques and the development of improved equipment. Investors can feel confident of the vigorous expansion of air travel in the years ahead, but uncertainties still prevail in the area of financial achievement.

—END

An Expert Analysis of First Quarter Reports

(*Continued from page* 281)

Carborundum Company, one of the largest suppliers of abrasive products, reported slightly lower earnings during the first quarter, chiefly because of special charges for research and new plants, including the highly intriguing new zirconium operation in West Virginia. Sales have improved, and the outlook is for better earnings during the balance of the year.

The drug industry has been responsible for improved sales and earnings lately, and also a gratifying market performance. **American Home Product** earnings increased above recent quarters, and the prospect indicates further net income improvement resulting from higher sales and better profit margins. **Schering's** sales and earnings also improved, and indications foretell further increases to come.

American Viscose sales increased slightly during the March quarter, and earnings held at about the December quarter's level. Although textile and tire yarns are not expected to show much change this year, the output of cellophane and special rayon staples should find a ready market. The present outlook seems as favorable as it has been for a considerable length of time, although a cautious view toward the stock remains in order until certain convolutions in the textile industry are clarified.

Oil Has Been Flowing Faster

First quarter reports for the major oil companies have been excellent, so much so that one may wonder whether subsequent quarters will measure up to the recent earnings reports. Opening of the Suez may take some of the glamor away from companies which have been exporting heavily to Europe. A strong producer, **Ohio Oil,** reported sales of $78.5 milli n, which was considerably above the comparable 1956 March quarter. Net income increased from $11.8 million to $12.7 million. **Standard of Indiana,** a successful producer, revealed first quarter sales of $551 million, and the $45.8 million net income was 10½% ahead of the same 1956 quarter and over 25% above the latter 1956 quarter. Near term earnings should be better than those of last year, and on the basis of Stanolind's extensive petroleum exploration, the longer term outlook is excellent.

Sinclair has been doing a good although necessary job of adding to its oil reserves. Pipeline and refinery operations, meanwhil are of a low cost nature. Fir quarter sales were over 10 higher than first quarter 195 and about 14% above the la quarter of 1956. Net incom showed a worthwhile improv ment and exceeded the averag 1956 quarterly rate of earning The balance of the year 195 should compare favorably wi last year. **Standard Oil of Ca fornia,** with its broad particip tion in oil production in numerou areas, revealed a considerab jump in sales of about 16 above the average 1956 quarter sales. Net income likewise showe some improvement. During th balance of the year, a continua tion of satisfactory sales and ne income is to be expected.

Like Standard of Californi **Cities Service** reported a brillian first quarter sales performanc aided by higher prices for crud and the bringing in of new oil pr duction. First quarter sales e ceeded the 1956 quarterly averag by about 25%, and earnings wer at a record high. Succeeding qua ters in 1957 may not show th same percentage improvemen but the year's results on balanc should still be excellent. **Atlant Refining** shared in the prosperit with first quarter sales of near $170 million exceeding the yea ago quarter by 73%. Net incom increased although to a lesser de gree. Forthcoming quarter should also register some con tinued improvement.

Results of Electronics Companies Mixed

Many of the makers of ele tronics devices showed a health and long-awaited improveme during the first quarter of 195 Those that lagged reported bett backlogs and the likelihood of in provement during the next fe quarters. Manufacturers of sp cialized and advanced equipmen such as transistors and diod not to mention electronic office ma chines, were ahead of the maker of consumer electronics good Thus, companies such as **Motoro** and **Admiral** continued to repo lagging sales and earnings. **CB** which has discontinued radio an TV set manufacturing, improve its first quarter sales and ear ings. **Philco** reported a pickup i sales over the first 1956 quarte but earnings dropped to 20c, fro 38c a year ago.

Tobacco Trends

American Tobacco sales were down during the first quarter, partially because of the shifting of public taste from non-filter to filter cigarettes. Net income was affected adversely by heavy promotion costs of the new "Hit Parade" cigarette. The announcement by Sloan-Kettering of the isolation of a cancer-inducing wax on tobacco leaf may produce effective methods of controlling this drawback, and this in turn may lead to a continuation of year-to-year volume increases, with a resultant favorable effect on market action for the tobacco stocks. It would appear that American Tobacco's sales and earnings may increase slightly during 1957.

Overall Trend

The conclusions to be drawn from these varying sales and earnings reports are reflective of the flattening trend of the economy. In some cases, an improvement in sales represents a special factor, such as the high level of oil sales to Europe and an increased price for crude. In other cases, an improvement stems from a recovery from a depressed state of affairs during the past several quarters, such as the electronics or automotive companies. One is impressed, however, that the rate of new orders, shipments and inventories can be said to be more "normal" than in many periods in the past. This to some is healthy. To other companies which must depend on a rapid advancement in sales in order to keep abreast of mounting costs, this is less desirable. The clues that analysts are watching most carefully are the level of business as measured by the FRB index, carloadings and other guideposts, the level of consumer spending, and, of course, the trend of corporate profit margins. So far, the clues add up to a continuation of the flat trend, subject to the usual seasonal variations. —END

CAN BOOM PERSIST IN SHIPPING & SHIPBUILDING?

(*Continued from page* 298)

also going to build two 100,000-ton giant tankers each of which will have a capacity of more than 825,000 barrels of oil. Among the notable repair and conversion jobs handled by the company last year was the restoration of the bow section of the Stockholm damaged in the collision with the Andrea Doria. This cost a million dollars and was completed in three months. Besides supplying most of its own steel requirements, Bessie's shipbuilding division provides its own engines.

The second largest shipbuilder in the United States, **Newport News Shipbuilding and Dry Dock Co.** is also the largest completely integrated shipyard in the country and is fully equipped with machine shops, forging facilities and large iron, brass and steel foundries. In addition to constructing various types of naval and merchant vessels, converting, repairing, reconditioning and rebuilding ships, it manufactures other products such as hydraulic turbines and mechanical accessories for hydro-electric power plants, etc. The two largest of the company's seven ways are the only private ones currently available for manufacturing large ships such as the Forrestal and United States.

At present the backlog of around $386 million is the largest peacetime amount for Newport News. Of extreme importance is the fact that approximately 90% of this figure is in commercial business which represents a significant change from the past. About 80% of these unfilled orders are in shipbuilding, 15% in conversions and hydraulic work and 5% in miscellaneous work, such as building wind tunnels and tanks. The company has orders to build 20 tankers and is booked through the spring of 1962. The tankers range in size from 37,800 tons to 60,000 tons. Two luxury liners for the Grace Line are also on the ways. Newport was the first company to build a super carrier, the Forrestal, now in service with the fleet. Completion and delivery of the Ranger, the same type of carrier, is expected to be in August. Newport is presently building a prototype of a nuclear-powered aircraft carrier in Idaho which may be finished in a year. Since there will probably not be any more carriers of the Forrestal and Ranger type ordered, it appears that the Navy's next contracts for carriers will be of the nuclear type.

Of importance to the company was the award of a contract to build a nuclear-powered submarine. In undertaking this new project, Newport has gained early entry into a field in which there should be considerable activity over the next decade.

Like most U. S. shipbuilders, Newport may still be working out some contracts with relatively low profit margins. However, with new contracts being written with more favorable terms, higher earnings may be reflected during early 1958 provided adequate steel can be obtained to maintain production schedules.

New York Shipbuilding, another beneficiary of the shipbuilding boom, reported at the end of March its backlog was approximately $284 million, a new record high. This is exclusive of a low bid of about $110 million submit-

ted by the company for construction of the sister ship to the S.S. United States for U.S. Lines (discussed below) as a replacement for the S.S. America. This contract cannot be formally awarded until Congress appropriates the necessary funds. About 73% of the total backlog was for the U. S. Navy, and the balance mainly commercial shipbuilding. The largest single order on the books is for the construction of the aircraft carrier, Kitty Hawk, for about $120 million. The company also has contracts for three guided missile destroyers, conversion of a cruiser, a submarine and six tankers running between 35,000 and 45,000 tons.

A new graving or dry dock was recently completed at a cost of around $10 million. This was built especially for the Kitty Hawk to be used for some two years in this construction and will then be free for equally large projects. In addition, the company has five open and three covered ones.

New York Shipbuilding is a subsidiary of Merritt, Chapman & Scott, a segment of the ramified industrial empire of Louis Wolfson. Merritt owns about 95% of New York Ship, but it has been announced that some 190,000 shares are to be sold to the public shortly. Even after the sale of this, Merritt, Chapman will still retain an 80.5% interest.

Lesser known, but equally as important in this field, is **Todd Shipyards**, one of the largest ship repair companies in the world. It owns and operates extensive facilities including graving and floating drydocks, piers, shops, power houses and service vessels. Its operations include building, repairing and conversion of ships, towboats, barges and floating equipment of all types as well as the manufacturing of combustion equipment. Although the company does not release backlog figures, its orders are up, with contracts for an $18.5 million guided missile destroyer, a floating pile driver, a $10 million job for the Navy for conversion of a cargo-passenger ship to a troop carrier and three barges. Certainly with the expanding ship construction program, Todd should receive its fair share. Worth noting is that the company is exceptionally strong financially with almost $23 million in working capital.

A shortage of vessels, accentuated by the closing of the canal, has also resulted in a marked increase in shipping activities. Commensurate with the expanding economies of the Free World is the need for shipping capacity to carry raw materials and finished products. As was mentioned above, ship construction is just beginning to get underway so that there is still a scarcity of vessels in world trade. In addition, shipping operators will benefit from the Government's projected replacement program insofar as they will receive newer, more modern and faster vessels.

Shippers to Benefit From Government Programs

The so-called offshore operators —that is those lines operating outside the continental limits of the United States—have been benefitting by the uptrend in rates brought on by the shortage of ships. Expectations are that this higher level of rates should continue through 1957. Since foreign flag carriers' costs are normally somewhat lower than those of American flag vessels, the United States Government uses the subsidy system in order to maintain the existence of our domestic Merchant Marine. The Government pays domestic carriers the difference between their costs and going world rates.

A possible stimulant to shipping may develop through the introduction of the "fishyback" method. While the idea itself is not new, having been used for some time for railroad cars, it is fairly recent in the truck-trailer field. The roll on, roll off, technique may prove to be the answer to the high cost of handling cargo.

A brief review of a few of the shipping operators that stand to benefit from the healthier climate in their industry follows: **American Export Lines**, one of the larger companies, operates between the Eastern United States and North Africa, Spain, India and the Mediterranean. Its fleet consists of two well-known passenger liners, the Independence and Constitution, four combination cargo-passenger vessels, 22 express vessels and two Victory ships. Last year, American Export with some $69 million in shipping revenues derived 70% from freight, 26.3% from passenger traffic, 2.3% from mail and the balance from miscellaneous items. Earnings in that period amounted to $9.53 a share against $3.82 in 1956 including credit adjustments of $0.66 and $1.23 respectively in each period. Actually, the company paid no tax as it deposited its entire net profits into a capital reserve fund for the construction of new vessels which it is entitled to do under the Merchant Marine Act of 1936. While 1957 first-quarter results showed a decline rather than an increase—$0.71 a share against $0.94, chiefly due to the Middle East situation and a waterfront strike—indications are that pre-tax figures for the full year will show improvement over 1956.

Formerly one of the oldest operators in the intercoastal trade, **American-Hawaiian Steamship Co.** no longer owns or operates any vessels. Some time ago, plans were announced that the company would go into the fishyback or roll on, roll off shipping service. With this in mind, American-Hawaiian requested bids on 8-10 ships, Newport News being the resultant lowest bidder. Recently American - Hawaiian announced that within a few weeks it will decide whether it will go ahead with plans for an intercoastal fishyback service.

One of the most important shipping lines between the United States and South America is **Moore-McCormack Lines.** It also operates between the U. S. and Scandinavia and ports in the Baltic Sea. Its fleet consists of 35 cargo lines, one T-2 tanker and, under charter from the Maritime Administration, two passenger vessels. These latter two ships are expected to be replaced by early 1958 with two 23-knot combination vessels with capacities for some 553 passengers, and about 350,000 cubic feet of dry cargo space. Furthermore, approval has been granted by the Federal Maritime Board to acquire ten ships from the Robin Line. This will give Moore-McCormack increased diversification in the growing South and East Africa trade area and strengthen overall operations.

United States Lines derives most of its revenues from transatlantic, freight and passenger services with other business from the Far East and Australia. It operates the very large S.S. United States and S.S. America. In addition its fleet includes 44 C-2 cargo type vessels and nine Mariners. A sister ship to the S.S. United States will be constructed for the company with the Government paying

about 60% of the cost. With a high level of passenger business and improved cargo business, total revenues rose to over $126 million in 1956 against over $101 million in 1955. Cargo revenues increased as follows: Transatlantic, 32%; Far East, 36% and Australian service, 24%. Last year's earnings of $9.79 a share including $2.30 non-recurring from the sale of vessels and adjustments, compared favorably with $5.34 in 1955. With higher rates in effect and improved business conditions, a further increase in revenues and profits in 1957 is a distinct possibility.

Some Clouds in an Otherwise Bright Sky

Both the shipbuilders and the shippers have busy days ahead, but there are some clouds on the horizon which suggest investment caution. For one thing expansion and plant equipment costs run to astronomical figures for the builders and can constitute a drag on earnings. Cash positions may also become tighter now that the government is no longer as willing to grant fast write-offs.

The shipping lines have been enjoying excellent rates, but there are some signs that may indicate a possible change. In the last few months there has been a noticeable drop in dry cargo and tanker rates for charter vessels, reflecting a number of factors, including stepped up new ship deliveries from the world's yards and the increasing number of ships coming into activity from the mothball fleet.

Finally, with so much of the activity of both of these industries tied closely to government sponsored programs, the possibilities of political disruptions or changes in defense psychology must be watched carefully. —END

Important Annual Oil Company Reports

(*Continued from page* 295)

advance to $7.1 billion from $6.2 billion a year earlier. Despite higher costs and the disruptions caused by the Suez affair, Jersey's earnings increased from $709 million or $3.61 per share in 1955, to $808 million or $4.11 per share in -956.

During the year the company's capital spending exceeded $1 billion dollars and is expected to rise to $1.25 billion this year. A substantial part of these expenditures has been earmarked for expanding its tanker fleet to keep Jersey free of charter difficulties in periods of emergency, and to assure complete control over its extended transportation system.

In the first quarter of 1957, Jersey estimated its revenues from sales and investments at a little over $2 billion against $1.73 billion a year ago. Distribution of oil, at record levels was made possible by the shifting of production from other areas to make up for Middle Eastern deficiencies. Net income advanced to $237 million or $1.20 per share, from $205 million equal to $1.04 per share in the 1956 initial quarter. During the quarter, crude oil production averaged 2.4 million barrels per day, the highest level in a number of years.

RICHFIELD OIL is one of the smaller integrated units in the country with growing interests abroad, especially in South America. Cities Service Co., through a subsidiary, controls 31.5% of the stock and Sinclair Oil, also through a subsidiary owns a 30.6% interest in the company.

Principal activities are still confined to California, and operations reflect conditions in that state. The company is also reaching out into other areas both at home and abroad for new sources of oil reserves.

During 1956 active explorations were conducted in Venezuela, and Richfield acquired with another company, a 75% interest in 2,200,000 acres in the Magdelena valley of Colombia. Active exploratory work is also being conducted in the Rocky Mountain area in the United States, and there have been interesting, though inconclusive developments in the so called "Four Corners" area of Utah, Colorado, Arizona and New Mexico.

Sales advanced in 1956 as a result of better demand for both crude and refined products, but price increases late in the year were too tardy to offset higher costs and earnings declined to $26.5 million equal to $6.64 per share from $29.6 million or $7.40 per share in 1955. Sales continued their upward trend in the first quarter of 1957, jumping a healthy $8 million to $69 million, but earnings continued to fall behind. Net income dropped almost $500,000 to $7 million for a per share comparison of $1.76 in 1957 against $1.88 in last year's initial quarter. —END

Keys to the Business Outlook

(*Continued from page* 274)

quarter, simply because of the general knowledge that steel prices will go up on July 1. Hence, despite all the arguments about when steel liquidation will be over, it appears that it will not even begin seriously until the third quarter. Somewhat the same situation prevails among several other industries where it has been assumed that liquidation is taking place; for example, in copper and other nonferrous metals.

Retail inventories now appear

to be in somewhat better shape than manufacturing inventories. Automobile stocks are not excessive (although they are certainly not light either); appliance stocks have been well controlled in the face of weak consumer demand; stocks of apparel stores, department stories, building material stores, and farm equipment dealers are in a normal range, considering the rate of sales. And wholesalers' inventories, while not nearly as clean as retail stocks, are not in a danger zone.

Taking the entire inventory picture together, the conclusion must be that inventory demand will not be a strength of late 1957, despite the general impression. It will probably be a mild weakness: that is, inventory in general will be draining slowly out of the manufacturing sector, purchasing agents will continue very cautious, and production rates in the affected industries (mostly raw materials industries) will be declining only slowly.

Summary for the Last Half

On balance, these trends in the three crucial sectors of business add up to slowly growing weakness. They suggest a perceptible but slow decline in general production rates; as measured by the Federal Reserves' index of industrial production, to perhaps a level of 138-140 by year end. Also suggested is a slight decline in earnings of corporations; stability in the general price level, but some further weakness in industrial commodities; and a moderate but nevertheless significant rise in unemployment. They suggest not serious recession, but slowly emerging weaknesses; not actual recession at all, in fact, but persistent, clear warning signals for 1958.

And for 1958 . . .

It is hardly necessary to warn readers that as the distance of a forecast is lengthened, its probable error rises rapidly, since intervening events can and generally do alter the outlook. However, it is worth noting that to extend the above forecast for the last half of 1957 into 1958, it becomes essential that trends in two sectors—namely, capital goods and government spending—be inserted into the framework.

In these two areas, late 1957 is likely to see sharply conflicting trends: government spending is clearly on the rise at state and local levels, and even at federal levels notwithstanding the best efforts of budget-cutters in Washington. Total government demand is thus rising by perhaps $5 billion a year, and the rise is likely to continue at only a slightly abated rate in early 1958. Conversely, the rate of orders and contracts in capital goods industries suggests that mild declines will characterize them by late 1957, and that the declines may well accelerate in early 1958.

Because of these offsetting trends foreseeable for these major sectors, the business environment of early 1958 remains inconclusive; it depends heavily on the outcome of a race between the rising tide of government spending, and the ebbing tide of demand in the private economy. It should at least be clear, however, that the decline foreshadowed for the last half of 1957, and the possible weakness of the position of private business at year end, call for cautious and practical planning on the part of business men and investors in the months ahead.

—END

Labor Legislation with Teeth to Emerge from Congress

(*Continued from page* 277)

The Amalgamated Engineering Union is a typical British investor of organized labor's dues: in 1955 its resources amounted to 11.5 million pounds. Almost one-half was invested in government securities; loans and mortgages secured by members houses amounted to about 3.3 million pounds; cash reserve was 2 million pounds, roughly. While there is no restriction on nature of investment, government and municipal bonds are consistently the biggest draw.

This feature of the British system is certain to interest Congress: Since 1913, British trade unions have maintained separate accounts for political funds. Contribution to them is voluntary and labeled. The accounts are separately kept and separately reported to the Government for public examination. Any union executive who goes beyond the segregated political account to assist a candidate or a party would be subject to prosecution for embezzlement.

Reforms Suggested by AFL-CIO

AFL-CIO doesn't want legislation directed solely at union-managed health, welfare, and pension funds. It lists for correction in the joint labor-management operations, the following:

1. Compromising ties, involving a conflict of interests, between employers and the insurance carriers and agents doing business with the plan, such as mutual directorships and debtor-creditor relationships.
2. Investment of reserves of the plan in the business of the employer, thereby jeopardizing the independent survival of the plan.
3. Absence of competitive bidding in the selection of the insurance carrier.
4. Refusal to disclose vital facts concerning the administration of the plan or to render an accounting to those whose money and welfare are at stake.
5. Profiteering on dividends derived from employe contributions.
6. Refusal to consider the employment of alternative carriers or providers of health benefits which offer superior benefits at lower cost.

Management's answer is that uncovered abuses have uniformly related to union-operated funds. But if only that type of control is to be put under surveillance, 90 per cent of employee benefit funds will be untouched. President Eisenhower and Secretary Mitchell are going along with the AFL-CIO thinking at this point.

The National Association of Manufacturers fears regulation of the type recommended by Senator Douglas will force them to make endless reports on salaries and fees charged to health, welfare and pension plans, summary statements of reserves and types of investments, investments and property held by all parties in interest, disclosure of business secrets which unions have sought for years to obtain but which have been protected by law from scrutiny.

NAM suggests state regulation, and insurance companies, visualizing possible Federal control, go along with that idea.

Best forecast is that the Senate will pass the first of a series of control bills before adjourning for the late summer months and that the House will concur early in 1958.

—END

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On April 6, 1956 when the market reached its highest point for 1956, Boeing closed at 81⅜—while General Dynamics closed at 61⅛. Despite the decline that has taken place since then, Boeing has appreciated 13⅝ points — while General Dynamics has gained 38⅝ points.

Boeing Airplane was recommended to subscribers at 46—prior to the 2-for-1 stock split in 1954 which marked our cost down to 23. On August 6, 1956, Boeing was split again, 2-for-1, reducing our cost to 11½ for the new shares which are selling at 47½ — representing 313% enhancement. Cash dividends of $1.25 in 1956 represented a 10.8% yield on our original buying price and 2% stock dividend was paid in December 1956.

Also, we recommended General Dynamics in April, 1954, at 43. It was then split 2-for-1, marking our cost down to 21½. It was split 3-for-2 in 1956 further reducing the cost to less than 14⅜. General Dynamics has now reached 66½ — to show 362% gain from our original recommended price. The current dividend yields 10.2% on our cost.

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BABIES – happy fans of evaporated milk in cans!

Tin plate has brought canned milk worldwide popularity among grown-ups, too

CHICAGO, ILLINOIS—Every minute of every day, some 6,000 cans of evaporated milk are opened and put to use. So reports Miss Hilda Ballestro, Director, Home Economics Dept., Evaporated Milk Association.

This economical and widely popular nutritious food is used extensively in cooking and baking. Also in coffee and tea, or over cereals, and for snacks, parties, outings of all kinds.

But one of evaporated milk's most significant uses, Miss Ballestro emphasizes, is in baby feeding. "It's estimated that more than half of all bottle-fed babies are raised on evaporated milk. Its Vitamin D-added, body-building nutrients—plus its soft curd quality—recommend it for infants' formulas and in solid foods for growing children. It is rich in calcium."

A U.S.-Born Product

And here's another basic convenience of the tin can: "Nearly 13,000,000 of today's homemakers work outside the home," says the home economist. "Evaporated milk—always handily in reach—enables them to whip up even 'company-size' meals—hot, tasty, nutritious—in just a few minutes after getting home from the job."

Evaporated milk is whole milk with about 60% of its water removed. It is then homogenized, Vitamin D is added, the milk is canned and afterward sterilized in sealed containers—all automatically in sanitary plants.

Evaporated milk is basically an American-born dairy product. It was first prepared commercially in Highland, Illinois, in 1885.

Achieves Worldwide Popularity

The Spanish-American War, and later World War I, popularized the use of evaporated milk enormously. It proved easily portable in cans, and could be kept indefinitely without refrigeration. Soldiers and civilians in war-blighted areas eagerly welcomed it.

Families by the millions took to evaporated milk during the depression. It offered all the food value of milk plus extra Vitamin D. It tasted good, was readily digestible, its uses were many, and it was always *safe*. And its cost was low. The demands of World War II further multiplied production.

National's Role

Evaporated milk is just one of many foods the familiar "tin" can brings us—so conveniently—today. Yes, within instant reach when and where we choose. And always in sanitary, unbreakable form.

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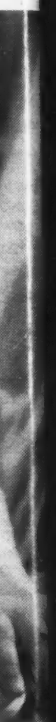

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